

MINUTES OF THE AUGUST 22, 2023, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on August 22, 2023. Participating were Committee Chair Franklin Raines and Committee members John Fahey; Roger W. Ferguson, Jr.; and Kathryn Hall.

Also present by invitation of the Committee were Associate General Counsel Craig Blackwell; Chief Investment Officer Amy Chen; Under Secretary for Administration Ronald Cortez; Acting General Counsel Farleigh Earhart; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Director of the Office of Government Relations Rachelle Graves; Director of Trust Resources, Office of Planning, Management, and Budget Rick Haas; Inspector General Cathy Helm; President of Smithsonian Enterprises Carol LeBlanc; Deputy Chief Financial Officer and Controller John Lynskey; Director of Federal Resources, Office of Planning, Management, and Budget Andrew Mosley; Deputy Secretary and Chief Operating Officer Meroë Park; and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER

Committee Chair Frank Raines called the meeting to order at 10:00 a.m. and reviewed the agenda. Mr. Raines informed the Committee of organizational changes within the Office of Finance and Accounting and introduced three new Smithsonian staff members, including Director of the Office of Government Relations Rachelle Graves, Deputy Chief Financial Officer and Controller John Lynskey, and Assistant Controller Kelli Polon.

APPROVAL OF THE MAY 16, 2023, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the May 16, 2023, Committee meeting were approved.

COMMITTEE CHARTER REVIEW

The Committee performed a provision-by-provision review of its Charter per its mandate to annually review and assess the Charter and evaluate its performance with respect to the Charter. No modifications to the Charter were proposed.

FISCAL YEAR 2023 FINANCIAL RESULTS TO DATE

Under Secretary for Administration Ron Cortez briefed the Committee on the Smithsonian’s fiscal year 2023 performance, based on financial data gathered through June 30, 2023. Mr. Cortez noted that the positive third quarter financial results are largely attributed to heavier visitor traffic in the museums, increased Smithsonian Travel and Tours, and improved e-commerce activity. The Committee received updates on the status of revenues and expenses, as well as the projected budget outlook for the remainder of the fiscal year. Total revenues for the period totaled \$1,496 million, and total expenses for the period totaled \$1,484 million, which include the spending of funds carried forward from fiscal year 2022. Mr. Cortez noted there have been no material

unanticipated expenses during the course of fiscal year 2023. The Central revenue and surplus outlook for FY 2023 are forecasted at \$100.5 million and \$11.3 million, respectively. Mr. Cortez also reviewed earnings from the Smithsonian's short-term investment fund, which increased significantly from \$3.2 million to a forecasted \$15.6 million.

SMITHSONIAN ENTERPRISES UPDATE

President of Smithsonian Enterprises Carol LeBlanc reviewed the financial performance of Smithsonian Enterprises ("SE") for fiscal year 2023. In the financial year to date, revenue performance was reported at four percent ahead of plan, driven by increased store sales and the Smithsonian's travel business. Ms. LeBlanc noted that total SE revenue is projected to end the year on plan. For the period ending June 30, 2023, net revenue and net gain were favorable versus budget by \$4.4 million and \$8.1 million, respectively. Total revenue and net gain outlook for fiscal year 2023 is forecasted at \$148.3 million and \$36.5 million, respectively. The Committee also reviewed the fiscal year 2024 preliminary budget and received an update on SE's future capital investment plan. The preliminary fiscal year 2024 budget for net revenue and net gain before UBIT is forecasted at \$161.5 million and \$38.8 million, respectively. SE's FY 2024 business priorities will be maximizing proceeds from existing businesses, investing in existing and new locations, identifying and focusing on new business activities, and supporting and aligning with Smithsonian strategic priorities.

FISCAL YEAR 2024 FEDERAL AND TRUST CONSOLIDATED BUDGET

Director of Federal Resources for the Office of Planning, Management, and Budget Andrew Mosley reviewed the fiscal year 2024 federal budget request to Congress. The Smithsonian requested a total of \$1,241 million for its fiscal year 2024 federal budget, which included \$976 million for Salaries and Expenses, and \$265 million for Facilities Capital. The House Appropriations Committee approved its markup of the FY 2024 Interior Appropriations Bill in July with a decreased appropriation of \$959.7 million. The Senate Appropriations Committee also approved its markup of the FY 2024 Interior Appropriations Bill in July with a decreased appropriation of 1,094.5 million. Mr. Mosley informed the Committee that at the proposed funding levels, any approved Federal pay raise would likely be unfunded and would necessitate reductions to current operations to support. Smithsonian leadership is preparing for budget cuts in fiscal year 2024 and is in the process of developing plans to reduce spending levels. The Institution is currently preparing to begin fiscal year 2024 operating under a Continuing Resolution ("CR"). Mr. Mosley also noted that approval of the motion would be required prior to the October Board meeting, therefore the Executive Committee would be asked to approve the budget on behalf of the Board.

Upon motion duly made and seconded, the Committee approved the following motion for recommendation to the Executive Committee:

VOTED that the Finance Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, (1), approves the budget of appropriated funds for fiscal year 2024 when signed into law by the President, and the Institutional budget totaling \$914.4 million for Trust funds for fiscal year 2024 as reflected

in this report, and (2) authorizes expenditures by the Secretary in accordance therewith. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive Committee.

FISCAL YEAR 2025 FEDERAL BUDGET REQUEST TO OMB

The Committee then reviewed the fiscal year 2025 federal budget request to the Office of Management and Budget (“OMB”). The Institution expects to submit a total budget request for fiscal year 2025 of \$1,212 million, which includes \$987 million for Salaries and Expenses and \$225 million for Facilities Capital. This represents a \$67.5 million increase compared to the fiscal year 2023 enacted amount. The fiscal year 2025 budget request is based on the funding priorities approved by the Finance Committee and the Board of Regents in May 2023 and June 2023, respectively. Budget priorities include non-discretionary cost increases; improving the facilities maintenance backlog; major capital projects; and strategic priorities and program increases, including funding required for the two new Smithsonian museums, expanding the digital transformation, supporting education outreach, advancing science by increasing research and scientific collaborations, reinforcing the Smithsonian’s status as a trusted source, and promoting nimble administration. Mr. Mosley informed the Committee that OMB also requested the Smithsonian prepare an additional budget scenario at a 2.4 percent reduction from the fiscal year 2023 enacted level, noting that Smithsonian leadership would have the opportunity to readdress strategic priorities prior to Congressional submission. Mr. Mosley also explained that the budget request is due to OMB by September 11, 2023, prior to the October Board meeting, and therefore after the approval of the Finance Committee, the Executive Committee would be asked to approve the request on behalf of the Board.

Upon motion duly made and seconded, the Committee approved the following motion for recommendation to the Executive Committee:

VOTED that the Finance Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, approves the Smithsonian Institution’s \$1,212.0 million appropriation budget request to the Office of Management and Budget for fiscal year 2025. Any material changes in program plans incorporated into this budget shall be made only with the approval of the Board of Regents or its Executive Committee.

CASH MANAGEMENT AND WORKING CAPITAL INVESTMENT

Next, Mr. Cortez reviewed a revision to the cash management and working capital investment policy with the goal of increasing investment return with low-risk investments while maintaining prudent cash management. The policy was updated to include more mid-term investments in diversified securities for a greater potential return. The short-term investment pool will hold government and agency securities as well as money market funds.

QUASI-ENDOWMENT DRAW UPDATE

Deputy Secretary Park and Mr. Cortez updated the Committee on the allocations of the \$30 million Central Trust Quasi-Endowment draw, which is being used to fund 11 Secretarial strategic priorities focused primarily in three categories: digital transformation, resourcing investment opportunities, and accelerating the Secretary's strategic priorities. The Committee reviewed the fiscal year 2023 status of each investment proposal and the current five-year spending plan. The Deputy Secretary also briefed the Committee on a new program within the \$30 million draw. The proposed new program would be funded with \$600,000 over two years to fund a pilot program, building a pan-Institutional team to create a blueprint to secure and manage large, multi-million-dollar projects and programs, especially those that would involve multiple Smithsonian units and global partners. The goal is to capture at least \$5 million in new project funding within two years.

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 11:50 a.m.

Respectfully submitted,

Franklin Raines, Chair