MINUTES OF THE JANUARY 18, 2018, FINANCE COMMITTEE
TELECONFERENCE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on January 18, 2018, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John Fahey and Committee members Steve Case, Roger Ferguson, and Timothy O’Neill.

Also present by invitation of the Committee were Secretary David Skorton; Chief of Staff to the Secretary Greg Bettwy; Provost/Under Secretary for Museums and Research John Davis; Deputy Chief of Staff to the Regents Kate Forester; Director of the Office of Finance & Accounting Jean Garvin; Inspector General Cathy Helm; Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath; Interim President of Smithsonian Enterprises Dennis Kelly; Director of the Office of Planning, Management, and Budget David Voyles; and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER

Committee Chair John Fahey called the meeting to order at 3:01 p.m. and reviewed the agenda.


Upon motion duly made and seconded, the minutes of the August 10, 2017, and the December 11, 2017, Committee meetings were approved without modification.

FISCAL YEAR 2017 FINANCIAL RESULTS

Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath reviewed the fiscal year 2017 financial results, following the close of the fiscal year on September 30, 2017. Mr. Horvath reminded the Committee that the Smithsonian began the fiscal year operating under a continuing resolution (“CR”) and the Consolidated Appropriations Act was not approved until May 2017, providing an enacted appropriation of $863.3 million. The Smithsonian’s revenue sources performed on or ahead of budget for fiscal year 2017, with the exception of revenues related to grants and contracts, which were impacted by the uncertainty surrounding the CR. He noted that philanthropic giving exceeded the annual goal of $200 million and that Smithsonian Enterprises generated revenue nine percent above budget, fueled by earnings at the National Museum of African American History and Culture. In addition, the Smithsonian Endowment exceeded expectations in large part due to strong markets. Mr. Horvath also highlighted the schedule and funding status of the Smithsonian’s ongoing capital projects, including the National Air and Space Museum (“NASM”) revitalization. The construction contract for the NASM project was awarded in June 2017 and renovation work is expected to begin in fiscal year 2018, contingent upon receiving fiscal year 2018 funding.
Next, Mr. Horvath reviewed the preliminary fiscal year 2018 financial results as of December 31, 2017. The Smithsonian has earned or recognized $51 million in contributions, and is expected to meet or exceed the fiscal year 2018 fundraising goal. Mr. Horvath noted that the Institution is monitoring the new tax law and its potential impact on fundraising revenues in 2018. Other Smithsonian revenue sources are performing on budget for fiscal year 2018 and no material, unanticipated expenses have been incurred.

FISCAL YEAR 2018 FEDERAL APPROPRIATIONS

The Smithsonian began fiscal year 2018 operating under a CR at the fiscal year 2017 enacted funding level, which will continue through January 19, 2018. The Smithsonian requested a total of $947 million for its fiscal year 2018 federal budget, based on previous requests and inclusive of inflationary cost increases and the facilities capital needed for the NASM revitalization. The levels of funding currently proposed by both the House and Senate would be well below the requested amounts for facilities capital. The Smithsonian planned to allocate $90 million of funding as the first tranche of funding toward the NASM revitalization. Final federal appropriations will determine whether this amount will need to be reduced due to other facilities capital and maintenance needs.

Mr. Horvath noted that federal funding for the Smithsonian would expire at midnight on January 19, 2018, if a CR or other appropriations legislation was not enacted. In the event of a shutdown, the Institution will stay in close consultation with appropriators on Capitol Hill and the Office of Management and Budget, and keep the Committee informed of operating plans.

FISCAL YEAR 2019 FEDERAL BUDGET REQUEST TO CONGRESS

Next, Mr. Horvath updated the Committee on the fiscal year 2019 federal budget request to the Office of Management and Budget (“OMB”). Based on guidance and approval from OMB, the Institution submitted to Congress a total budget request for fiscal year 2019 of $957.4 million, which includes $3.5 million for mandatory cost escalations, $5 million for maintenance funding, and $219.5 million for capital funding including the NASM revitalization and critical needs at the National Zoological Park, Hirshhorn Museum and Sculpture Garden, Smithsonian Castle, and Smithsonian-wide collections facilities.

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

VOTED that the Finance Committee recommends that the Board of Regents authorizes the Secretary to submit to Congress a federal budget request for appropriated funds for fiscal year 2019 as part of the President’s budget in the amount of $957.4 million, as negotiated with the Office of Management and Budget (OMB), and authorizes the
Secretary to inform OMB and Congress fully about the implications of the President’s budget for the mission and priorities of the Smithsonian.

UPDATE ON EXTERNAL DEBT

Mr. Horvath reviewed the status of the Smithsonian’s external debt. The Institution issued no new debt in fiscal year 2017. The Smithsonian’s current external debt is $198.5 million, which consists of a fixed-rate debt amount of $71 million and a variable-rate debt of $127.5 million. The Smithsonian’s credit rating was reaffirmed at an AAA/Stable rate from both Standard and Poor’s and Moody’s.

Next, Mr. Horvath briefly reviewed the Smithsonian’s working capital. The Smithsonian has short term cash holdings of $365.8 million, in a mix of money markets, certificates of deposit, commercial paper, agency bonds, and in operating accounts at three different financial institutions.

The Committee then received an update on the defeasance of the Smithsonian’s outstanding Series 2010 Bonds, which were used to fund the Discovery Center at the National Museum of Natural History (“NMNH”), which encompasses more than 86,000 square feet including a retail store, an IMAX Theater, and a restaurant. Smithsonian management recommended the Series 2010 Bonds be legally defeased by purchasing, and depositing into escrow, securities sufficient to satisfy future debt service requirements. Following discussion in May 2017, the Finance Committee recommended that the Board of Regents approves the defeasance of the Smithsonian’s Series 2010 Bonds, to allow for more flexibility in funding the NMNH construction. NMNH is currently undertaking a project to replace the IMAX Theater with additional restaurant and programming space planned for a 2019 opening, which will coincide with the opening of the Deep Time exhibit. Subsequently, the Board approved the defeasance of the Smithsonian’s Series 2010 Bonds in June 2017. Following the Regent’s approval, the Smithsonian engaged external bond counsel to guide the defeasance process. Mr. Horvath informed the Committee that after deeper analysis, the defeasance of the bonds would not remove the federal “private use” restrictions, one of the primary goals of the defeasance. Mr. Horvath advised that no further action would be taken regarding the Series 2010 Bonds; they will be serviced and paid down according to the original schedule.

UPDATE ON SMITHSONIAN ENTERPRISES

Smithsonian Enterprises (“SE”) Interim President Dennis Kelly provided the Committee with a final review of SE performance for fiscal year 2017. Mr. Kelly reported that SE operations closed fiscal year 2017 ahead of budget. He noted the strong year-end performance was due in large part to museum services and retail operations at the National Museum of African American History and Culture (“NMAAHC”). Mr. Kelly then reviewed preliminary performance of SE for fiscal year 2018, noting that the Smithsonian’s revenue sources were performing on or
ahead of budget. The Committee discussed the financial impacts of renovations related to museum services and retail operations, particularly at NASM and NMNH.

**FINANCE COMMITTEE CHARTER AMENDMENTS**

The Committee reviewed its Charter, per its mandate, to annually review and assess the Charter and evaluate Committee performance with respect to Charter requirements. The Committee proposed one modification that recommends new language be added to its Charter in an effort to define its authority to approve certain investments from non-endowed reserves recommended by Smithsonian Enterprises.

The Committee agreed with the proposed Charter amendments, and upon motion duly made and seconded, the following action was approved for recommendation to the Governance and Nominating Committee:

**VOTED** that the Finance Committee recommends that the Governance and Nominating Committee recommend to the Board of Regents the approval of the proposed amendments to the Finance Committee Charter.

**ADJOURNMENT**

There being no further business to consider, the meeting was adjourned at 4:16 p.m.

Respectfully submitted,

John Fahey, Chair