

MINUTES OF THE MAY 13, 2019, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on May 13, 2019, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair Roger W. Ferguson, Jr. * and Committee members Representative Doris Matsui, * John Fahey, * and Kathryn Hall.

Also present by invitation of the Committee were Secretary David Skorton; * Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Provost and Under Secretary for Museums, Education, and Research John Davis; Deputy Chief of Staff to the Regents Kate Forester; Director of the Office of Finance and Accounting Jean Garvin; Special Assistant to the Regents Mallory Gianola (recorder); Associate Director of the Office of Planning, Management, and Budget Rick Haas; * Inspector General Cathy Helm; Acting Director of the Office of Planning, Management, and Budget Ken Johnson; President of Smithsonian Enterprises Carol LeBlanc; General Counsel Judith Leonard; and Acting Under Secretary for Finance and Administration/Chief Operating Officer Mike McCarthy.

CALL TO ORDER

Committee Chair Roger Ferguson called the meeting to order at 10:00 a.m. and reviewed the agenda.

APPROVAL OF THE JANUARY 17, 2019, MEETING MINUTES

Upon motion duly made and seconded, the minutes of the January 17, 2019, meeting were approved without modification.

FISCAL YEAR 2019 FINANCIAL RESULTS

Acting Under Secretary for Finance and Administration/Chief Operating Officer Mike McCarthy reviewed the fiscal year 2019 financial results as of March 31, 2019. The Smithsonian began the fiscal year operating under a continuing resolution (“CR”) through December 21, 2018. Following the government shutdown, the enacted appropriations for fiscal year 2019 were passed on February 15, providing \$1,043.5 million for the Smithsonian, including \$740 million for Salaries and Expenses and \$303.5 million for Facilities Capital.

Mr. McCarthy reported that the Smithsonian’s primary revenue sources of philanthropic giving, sponsored projects, and investment income are performing on or ahead of budget for fiscal year 2019, while expenses remain within budgetary guidelines. As anticipated, Smithsonian Enterprises generated revenues below budget due to retail activities and restaurant closures affected by major revitalization projects. In addition, schedules and funding for the Smithsonian’s ongoing capital projects at the National Air and Space Museum (“NASM”), National Museum of Natural History, Steven F. Udvar-Hazy Center, and National Zoological Park are tracking according to budget.

* *Participated by telephone*

Mr. McCarthy also reported that with respect to assets and liabilities, the endowment's total assets are valued at \$1.645 billion, representing a 6.0 percent increase since March 31, 2018. Additionally, both Moody's and S&P have given the Smithsonian an Aaa/AAA credit rating. There have been no material, unanticipated expenses during the course of fiscal year 2019.

FISCAL YEAR 2020 FEDERAL APPROPRIATIONS

Next, Mr. McCarthy updated the Committee on the fiscal year 2020 federal budget request. The Institution submitted its fiscal year 2020 federal budget request to Congress on February 11, 2019, and on March 27, 2019, Secretary Skorton testified before the Senate Rules Committee on the request. The total funding requested for fiscal year 2020 is \$978.3 million, which includes \$759.3 million for Salaries and Expenses, and \$219 million for Facilities Capital. The Smithsonian's request represents a \$19.3 million increase in Salaries and Expenses from the fiscal year 2019 enacted budget amount. This amount reflects increases for mandatory cost escalations; maintenance funding; facilities operations and security; information technology infrastructure and digitization; museum program infrastructure; animal care; initiatives for the Asian Pacific American Center and the Smithsonian Latino center; and science research. The Smithsonian plans to allocate \$100 million of the Facilities Capital funding toward the NASM revitalization.

FISCAL YEAR 2021 FEDERAL BUDGET REQUEST PRIORITIES

Mr. McCarthy continued with an update on the fiscal year 2021 federal budget request to Congress. The fiscal year 2021 federal budget request is due to the Office of Management and Budget ("OMB") on September 9, 2019. The fiscal year 2021 priorities are consistent with past years and include Salaries and Expenses, with an anticipated 2.0% pay raise; research and museum program infrastructure, including collection care initiatives, collection digitization, collection scholarship, and research initiatives; and facilities maintenance, security, and support. The Facilities Capital priorities include the continued revitalization of NASM and additional projects at the Hirshhorn Museum and Sculpture Garden, National Zoological Park, Smithsonian Castle, Arts and Industries Building, and the Pod 6 collections storage collaboration with the National Gallery of Art.

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 approves the fiscal year 2021 federal budget priorities proposed by the Secretary.

FISCAL YEAR 2020 ENDOWMENT PAYOUT

Mr. McCarthy reviewed the fiscal year 2020 Endowment payout recommendation. The Smithsonian's historical policy is to pay out five percent of the trailing average market value per share over the previous five years to support programs and activities. Since 2012, an additional annual payout of up to one percent has been added to support advancement activity. Smithsonian management recommended the continuation of a five percent payout to support programmatic activity, and a decreased annual payout of 0.50 percent to support advancement activity, with projected payouts of \$74.2 million and \$3.2 million, respectively.

Upon motion duly made and seconded, the Committee approved the following motion:

VOTED that the Finance Committee recommends that the Board of Regents approves a five percent payout from the Smithsonian Endowment in fiscal year 2020 to support programmatic activity. The Finance Committee further recommends 0.50 percent payout from the Smithsonian Endowment in fiscal year 2020 to support advancement activity. The payout shall be calculated against the trailing five-year average market value of the Smithsonian Endowment.

SMITHSONIAN CONSOLIDATED ADMINISTRATIVE HEADQUARTERS

Mr. McCarthy led the Committee's discussion of a proposed Smithsonian consolidated administrative headquarters. The Smithsonian has identified five leased properties, along with the Smithsonian Castle, which are under consideration for consolidation into one administrative headquarters location. Smithsonian management recommended a location near the National Mall for the proposed headquarters, considering cost savings, essential operations and functions, potential employee impact, transportation costs, and real estate trends. The Committee reviewed management's recommendation and recommended that the Board authorize the Smithsonian Institution to negotiate and purchase the building as a consolidated administrative headquarters. Mr. McCarthy noted that this requires joint approval by the Finance and Facilities Committees.

SMITHSONIAN CHANNEL

To conclude, Mr. McCarthy discussed the current relationship with the Smithsonian Channel. The SNI/SI Network LLC ("Channel") is a joint venture that was established in 2006 with Showtime Networks Inc. ("Showtime"). The Smithsonian exercised an option to buy an additional equity interest in 2011. In May of 2016, the Smithsonian initiated the option to sell back a portion of its equity stake in the Channel. Presently, management is proposing the sale of the remaining equity interest. The Smithsonian would maintain its interest in licensing and programming. Upon motion duly made and seconded, the Committee approved the following motion:

VOTED that the Finance Committee recommends that the Board of Regents approves management’s recommendation that the Smithsonian Institution sell its remaining equity interest in Smithsonian Channel.

UPDATE ON SMITHSONIAN ENTERPRISES

President of Smithsonian Enterprises (“SE”) Carol LeBlanc shared the new mission, vision, and strategic priorities for SE, including new and existing revenue generating business initiatives. Ms. LeBlanc highlighted the impacts that major capital projects at the National Air and Space Museum, National Museum of African American History and Culture, and National Museum of Natural History have had on net gain. Ms. LeBlanc also shared the tactical and strategic priorities for the retail and media group in the short and long-term.

ADJOURNMENT

There being no request for an executive session and with no further business to discuss, the meeting was adjourned at approximately 11:02 a.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair

EMAIL BALLOT

Following the scheduled meeting, the Committee voted to approve the following motion via email ballot completed on May 24, 2019, with amended language proposed by the Facilities Committee.

VOTED that the Facilities Committee and the Finance Committee jointly recommend that the Board of Regents authorize the Smithsonian to negotiate and effect the purchase and acquisition of Capital Gallery (“Building”), a building to be used primarily for purposes of administrative office space, subject to the following conditions: (1) that the Congress enact legislation authorizing the Smithsonian to deposit into the general trust funds of the Institution Federal appropriations designated for lease or rent payments, to the extent that federally supported activities will be housed in the Building, for use for expenses associated with the purchase of the Building; (2) that the Institution secure financing for the costs of acquiring the Building and other expenses associated with the purchase of the Building; and (3) that the Secretary consult with the Facilities Committee and the Finance Committee after final terms of the purchase are negotiated and before the purchase is effected. The Committees further recommend that the Secretary be authorized to secure financing up to a level approved by the Committees, such financing to be inclusive of the costs for moving to, and building out, the newly acquired space.