

MINUTES OF THE MAY 6, 2021, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) conducted a videoconference meeting on May 6, 2021. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Senator Catherine Cortez Masto, Representative Doris Matsui, John Fahey, Franklin Raines, and Kathryn Hall.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Chief Investment Officer Amy Chen; Deputy Assistant Secretary for Advancement Zully Dorr; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Associate Director of the Office of Planning, Management, and Budget Rick Haas; Smithsonian Coordinating Officer for COVID-19 Doug Hall; Inspector General Cathy Helm; Acting Director of the Office of Planning, Management, and Budget Ken Johnson; Chief Financial Officer Janice Lambert; President of Smithsonian Enterprises Carol LeBlanc; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Under Secretary for Administration Mike McCarthy; Deputy Secretary and Chief Operating Officer Meroë Park; Director of the Office of Government Relations Vernon Simms; Assistant Secretary for Advancement Robert Spiller; Chief of Staff to the Regents Porter Wilkinson; and Administrative Director and Senior Advisor to Senator Cortez Masto, Josh Yearsley.

CALL TO ORDER

Committee Chair Roger Ferguson called the meeting to order at 10:00 a.m. and reviewed the agenda. He welcomed Senator Catherine Cortez Masto to her first Finance Committee meeting. Mr. Ferguson also acknowledged the final Committee meeting for Mike McCarthy, the Smithsonian’s Under Secretary for Administration. Mr. Ferguson informed the Committee that Doug Hall will serve as the Acting Under Secretary for Administration, while the Smithsonian works through the search process to identify a new permanent Under Secretary.

APPROVAL OF THE JANUARY 14, 2021, MEETING MINUTES

Upon motion duly made and seconded, the minutes of the January 14, 2021, meeting were approved without modification.

COVID-19 MUSEUM REOPENINGS

Mr. Hall reviewed the reopening schedule with the Committee. The Smithsonian closed its museums in March 2020 due to the COVID-19 pandemic. Between July and October 2020, eight facilities opened to the public before closing again on November 23. Mr. Hall announced that the first museum to reopen to the public was the National Air and Space Museum’s Steven F. Udvar-Hazy Center in Chantilly, Virginia, on May 5. The National Museum of African American History and Culture, the Donald W. Reynolds Center for American Art and Portraiture, and the Renwick Gallery will open on May 14; and the National Museum of American History, the

National Museum of the American Indian in Washington, D.C., and the National Zoo will open on May 21. The Committee also discussed the current operational status of non-public facilities and the success of the Smithsonian's multi-agency vaccination effort for government employees in the National Capital Region.

FISCAL YEAR 2021 FINANCIAL RESULTS

Under Secretary for Administration Mike McCarthy reviewed the fiscal year 2021 financial results as of March 31, 2021. The enacted appropriations for fiscal year 2021 were passed on December 27, 2020, providing \$1,032.7 million for the Smithsonian, including \$818.2 million for Salaries and Expenses and \$214.5 million for Facilities Capital. The Committee received updates on the current status of revenues and expenses, as well as the schedule and funding for major capital projects. Mr. McCarthy noted that philanthropic giving, sponsored projects, and the Smithsonian Endowment have all performed at or above budget despite the challenging economic environment resulting from the COVID-19 (Coronavirus) pandemic. As anticipated, Smithsonian Enterprises, the overall central Trust fund balance, and major capital projects have been negatively affected by the museum closures and the pressure on pricing and project timing due to the upward cost of construction and the increased demand for materials and labor. The Committee also discussed mitigation efforts to offset the estimated \$32.5 million loss for fiscal year 2021, related to the extended COVID-19 shutdown.

FISCAL YEAR 2022 FEDERAL BUDGET REQUEST TO CONGRESS

Acting Director of the Office of Planning, Management, and Budget Ken Johnson presented the Smithsonian's fiscal year 2022 federal budget request to Congress for the Committee's consideration. In consultation with OMB, the Institution will submit to Congress a total budget request of \$1,102 million, which includes \$872 million for Salaries and Expenses, and \$230 million for Facilities Capital. Mr. Johnson noted that the fiscal year 2022 facilities capital budget would address the transformation of the National Air and Space Museum, revitalization of the Historic Core, and begin support for the two new Smithsonian museums authorized by Congress in December 2020. Mr. Johnson also reminded the Committee that during a presidential transition year, budget submission deadlines are routinely delayed. As a result, the fiscal year 2022 budget submission to Congress is scheduled to be delivered in May 2021, which will begin the appropriations process and the Smithsonian's engagement with House and Senate Appropriations committees for fiscal year 2022.

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

VOTED that the Finance Committee recommends that the Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, authorizes the Secretary to submit to Congress a federal budget request for appropriated funds for fiscal year 2022 as part of the President's budget in the amount of \$1,102.0 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.

FISCAL YEAR 2023 FEDERAL BUDGET PRIORITIES

Mr. Johnson continued with an update on the fiscal year 2023 federal budget priorities. The Committee reviewed the initial budget priorities for both Salaries and Expenses and Facilities Capital. Budget priorities for Salaries and Expenses include non-discretionary cost increases; facilities maintenance and security; and program increases for the two new museums; COVID-19 support; education programming; collection digitization and scholarship; and research initiatives. The Facilities Capital priorities include the continued transformation of the National Air and Space Museum; revitalization of the Smithsonian’s Historic Core; and additional projects at the Hirshhorn Museum and Sculpture Garden, National Museum of Natural History, National Zoological Park, 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 2023 federal budget priorities proposed by the Secretary.

SMITHSONIAN ENTERPRISES AND CENTRAL TRUST UPDATE

Next, the Committee received an update on Smithsonian Enterprises (“SE”) and its progress on implementing key revenue generating business initiatives. President of Smithsonian Enterprises Carol LeBlanc first reviewed SE’s financial performance for fiscal years 2018 through 2021. Museum closures and travel restrictions heavily impacted both the retail and travel businesses in fiscal years 2020 and 2021. Ms. LeBlanc summarized the key budget variances by business line and highlighted major expense reductions and mitigation efforts underway to offset the loss of revenue. The Committee also reviewed accomplishments and remaining goals for ecommerce and online point-of-sale fundraising in fiscal year 2021, including a limited-edition collection of retail merchandise branded with the Mars Helicopter, Ingenuity, following the first successful completion of a powered, controlled flight on another planet on April 19, 2021.

The Committee then received an update on the overall status of the central Trust revenue, expense, and deficit. Mr. McCarthy noted that the central Trust is reliant on revenues from the three primary business divisions of SE: media, retail, and consumer and education products. As a result of the financial impact of COVID-19, primarily driven by museum closures, the Smithsonian is anticipating a cumulative deficit of approximately \$40 to \$50 million over fiscal years 2020 and 2021. In addition to investing in key strategic focus areas, the Institution is also exploring ways to increase revenue and reduce costs to the central Trust.

FISCAL YEAR 2022 ENDOWMENT PAYOUT

Chief Investment Officer Amy Chen and Assistant Secretary for Advancement Rob Spiller led the Committee's discussion on the fiscal year 2022 Endowment payout. Historically, the Smithsonian's policy has been to pay out five percent of the average market value of the endowment for the last five calendar years to support programs and activities, and an additional annual payout of up to one percent to support advancement activity. Smithsonian management recommended the continuation of a five percent payout to support trust programmatic activity, and a payout of up to 0.5 percent to support advancement activity, with projected payouts of approximately \$76.2 million and \$3.5 million, respectively.

Mr. Spiller described the programmatic and central advancement activities supported by the additional payout. The overarching goal is to use the additional payout for advancement activity to increase annual fundraising from its current \$220 million to \$300 million per year by fiscal year 2024, which long-term would help address unit and trust fiscal pressures.

Smithsonian staff will continue to work closely with the Office of Investments and the Office of Advancement to monitor changes and new developments in the market and their impact on the Endowment's value and potential payout. The Committee asked that the Finance and Investment Committees consider revisiting the Endowment payout policy at future meetings to determine the Endowment payout recommendation on an annual basis.

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

VOTED that the Finance Committee recommends that the Board of Regents approves a five percent payout from the Smithsonian Endowment in fiscal year 2022 to support programmatic activity. The Finance Committee further recommends up to a 0.5 percent payout from the Smithsonian Endowment in fiscal year 2022 to support advancement activity. The payout shall be calculated against the trailing five-year average market value of the Smithsonian Endowment.

UPDATE ON EXTERNAL DEBT

To conclude the open session, Chief Financial Officer Janice Lambert provided an overview of the Smithsonian's external debt. The Smithsonian's current external debt is at approximately \$390 million, which consists of a fixed-rate debt amount of \$14.7 million, and a variable-rate debt of \$375.3 million, which increased significantly due to the purchase of the Smithsonian's consolidated administrative headquarters ("Capital Gallery Building"). Ms. Lambert also updated the Committee on the Smithsonian's short-term cash holdings and long-term debt interest expense.

EXECUTIVE SESSION

The Committee entered an executive session at approximately 11:58 a.m. to discuss confidential business matters.

ADJOURNMENT

With no further business to discuss, the meeting was adjourned at approximately 12:07 p.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair