

MINUTES OF THE AUGUST 26, 2021, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on August 26, 2021. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Representative Doris Matsui, John Fahey, Franklin Raines, and Kathryn Hall. Board and Executive Committee Chair Steve Case also participated in the meeting.

Also present by invitation of the Committee were Counselor to the Chief Justice Jeffrey P. Minear; Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Chief Investment Officer Amy Chen; Controller, Office of Finance and Accounting Jennifer Case; Under Secretary for Education Monique Chism; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Under Secretary for Museums and Culture Kevin Gover; Associate Director of the Office of Planning, Management, and Budget Rick Haas; Acting Under Secretary for Administration Doug Hall; Inspector General Cathy Helm; Acting Director of the Office of Finance and Accounting Tova Jaffe; Acting Director of the Office of Planning, Management, and Budget Ken Johnson; Chief Financial Officer Janice Lambert; President of Smithsonian Enterprises Carol LeBlanc; General Counsel Judith Leonard; Deputy Secretary and Chief Operating Officer Meroë Park; Director of the Office of Government Relations Vernon Simms; Assistant Secretary for Advancement Robert Spiller; Under Secretary for Science and Research Ellen Stofan; Acting Deputy Under Secretary for Administration Allison Willcox; and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER

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

APPROVAL OF THE MAY 6, 2021, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the May 6, 2021, Committee meeting were approved without modification.

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.

COVID-19 MUSEUM REOPENINGS

Acting Under Secretary for Administration Doug Hall updated the Committee on the Smithsonian’s ongoing response to COVID-19, specifically reopening, impacts of vaccination mandates, and safety protocols for Smithsonian operations. Mr. Hall informed the Committee that on August 27, 2021, the National Postal Museum will open to the public, marking a full reopening of the Smithsonian since closing to the public in March 2020, with the exception of the Arthur M. Sackler

Gallery and the historic Arts and Industries Building (“AIB”). Mr. Hall noted that the Sackler Gallery, part of the Smithsonian’s National Museum of Asian Art, will remain closed until November for exhibition construction. In November, AIB will also open to the public for the first time since 2004 with a new exhibition, “FUTURES,” in honor of the Smithsonian’s 175th anniversary. All museums reopened with added health and safety measures due to the COVID-19 pandemic and many with reduced hours of operation. Visitors are required to reserve free, timed-entry passes for most locations. Mr. Hall also updated the Committee on vaccine mandates and the impact on Smithsonian operations. Effective September 9, 2021, the “Key to NYC” program will require all visitors ages 12 and older to show COVID-19 vaccination proof before entering certain New York City establishments, including the Cooper Hewitt, Smithsonian Design Museum and the National Museum of the American Indian in New York.

FISCAL YEAR 2021 FINANCIAL RESULTS

Chief Financial Officer Janice Lambert then briefed the Committee on the Smithsonian’s fiscal year 2021 performance, based on financial data gathered through June 30, 2021. Ms. Lambert reported that revenues for the period totaled \$1,152.8 million. The Smithsonian’s primary revenue sources of Federal appropriations, philanthropic giving, sponsored projects, and investment income performed on or ahead of budget, while Smithsonian Enterprises was behind budget for the period due to museum closures attributed to COVID-19. Expenses for the period totaled \$1,209.4 million, which reflects the spending of funds carried forward from fiscal year 2020. Expenses remained on or below budget, with the exception of several capital projects, including the National Air and Space Museum revitalization, the Molina Family Latino Gallery at the National Museum of American History, the Bird House at the National Zoological Park, and the Pod 6 collections storage module. All major capital projects continue to be impacted by the COVID-19 shutdown and related delays in materials availability. Ms. Lambert also reviewed the central trust fund balance and projected annual results for fiscal year 2021. The reduced revenues related to the COVID-19 museum closures will push the overall fund balance into a deficit. The fiscal year 2021 budget reflected an estimated \$56.6 million loss.

SMITHSONIAN ENTERPRISES UPDATE

President of Smithsonian Enterprises Carol LeBlanc updated the Committee on Smithsonian Enterprises (“SE”) operations. Ms. LeBlanc outlined the major variances and impacts to SE business activities affecting fiscal year 2021 performance. Net revenue is projected to be down \$6.3 million, primarily driven by museum closures related to the ongoing COVID-19 pandemic, and SE retail revenue losses are projected through fiscal year 2023. The Committee also reviewed SE’s contribution to the Central Trust for fiscal years 2015 through 2021.

CENTRAL TRUST DEFICIT REDUCTION

The Committee was briefed on the Central Trust deficit and discussed potential mitigation strategies identified by Smithsonian leadership to address the financial impact of the COVID-19 pandemic on the Institution’s Trust budget and the underlying Central Trust annual operating

deficit. To address the annual deficit, Smithsonian leadership identified options and strategies focused on reducing future Central Trust spending and expenses to eliminate future deficits and enhancing revenue generating opportunities to increase revenue. Ms. Lambert reviewed Central Trust reductions, to be phased in over five years, noting additional adjustments that would carry through fiscal year 2025. Ms. Lambert also informed the Committee that Smithsonian leadership is evaluating additional strategies to address the accumulative deficit that will be presented to the Finance Committee, and subsequently the Board.

FISCAL YEAR 2022 FEDERAL AND TRUST CONSOLIDATED BUDGET

Ms. Lambert then updated the Committee on the fiscal year 2022 federal budget request to Congress. The Smithsonian requested a total of \$1,102 million for its fiscal year 2022 federal budget, which included \$872 million for Salaries and Expenses, and \$230 million for Facilities Capital. The House Interior Appropriations Committee approved the Smithsonian's spending bill with the requested appropriation of \$1,102 million. The only change from the Smithsonian's request was an increase of \$1.1 million to support Asian Pacific American Initiatives, which was offset by a decrease of \$1.1 million to Research Program Initiatives. Ms. Lambert reported that the Senate has not completed action on the fiscal year 2022 appropriations bill for the Department of Interior, Environment, and Related Agencies. As a result, the Institution is preparing to begin fiscal year 2022 operating under a Continuing Resolution ("CR"). Ms. Lambert also noted that approval of the motion would be required prior to the October Board meeting, therefore following the Finance Committee's approval, the Executive Committee would be asked to approve the budget on behalf of the full Board.

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 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 2022 when signed into law by the President, and the Institutional budget totaling \$527.5 million for Trust funds for fiscal year 2022 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 2023 FEDERAL BUDGET REQUEST TO OMB

Next, Acting Director of the Office of Planning, Management, and Budget Ken Johnson reviewed the fiscal year 2023 federal budget request to the Office of Management and Budget ("OMB"). The Institution expects to submit a total budget request for fiscal year 2023 of \$1,217.1 million, which includes \$942.1 million for Salaries and Expenses and \$275 million for Facilities Capital. This represents a \$184.4 million increase compared to the fiscal year 2021 enacted amount. The fiscal year 2023 budget request is based on funding for the Institution's COVID-19 response and operations under the Smithsonian's "new normal;" including maintaining and revitalizing the Smithsonian's aging physical plant; ensuring the safety and security of Smithsonian staff, visitors,

and collections; stewarding the Smithsonian's physical and digital collections to preserve and make accessible to visitors, researchers, educators, and the general public; and the creation of two new museums. Mr. Johnson informed the Committee that OMB also requested the Smithsonian prepare additional budget scenarios that include a two percent increase and a seven percent reduction from the fiscal year 2022 Congressional request level, noting that Smithsonian leadership would have the opportunity to readdress strategic priorities prior to Congressional submission. Mr. Johnson also explained that the budget request is due to OMB by September 13, 2021, 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 full Board.

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 Executive Committee, on behalf of the Board of Regents pursuant to Board Bylaw 3.01, approves the Smithsonian Institution's \$1,217.1 million appropriation budget request to the Office of Management and Budget for fiscal year 2023. 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.

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 11:35 a.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair