

MINUTES OF THE AUGUST 22, 2016, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents of the Smithsonian Institution (“Smithsonian”) held a meeting on August 22, 2016, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair David Rubenstein and Committee members John Fahey,* John W. McCarter, Jr.,* and Timothy O’Neill.* Senator David Perdue, Representative Xavier Becerra, and Roger Sant were unable to attend the meeting.

Also present by invitation of the Committee were Secretary David Skorton;* Chief of Staff to the Secretary Greg Bettwy;* Vice President of Finance & Administration for Smithsonian Enterprises Bruce Dauer; Director of the Office of Finance and Accounting Jean Garvin; Under Secretary for Finance & Administration/Chief Financial Officer Albert Horvath; Smithsonian Enterprises President Chris Liedel; Assistant Inspector General for Audits Joan Mockeridge; Director of Planning, Management, and Budget David Voyles; and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER

Committee Chair David Rubenstein called the meeting to order at 10:00 a.m.

APPROVAL OF THE MAY 19, 2016, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the May 19, 2016, Committee meeting were approved without modification.

FISCAL YEAR 2016 FINANCIAL UPDATE

Under Secretary for Finance and Administration/Chief Financial Officer Albert Horvath updated the Committee on the Smithsonian’s fiscal year 2016 performance, based on financial data gathered through June 30, 2016.

Revenues remain stable and are on target to reach projected goals outlined in the fiscal year 2016 budget. The Smithsonian received \$840.2 million in federal appropriations for fiscal year 2016. Additional sources of revenue as of June 30, 2016, include \$171.1 million from gifts and grants; \$58.7 million from government grants and contracts; \$53.4 million from the Endowment Payout; and \$131.9 million from business operations. Expenses remain below budget, as there have been no material unanticipated expenses during the course of fiscal year 2016.

Mr. Horvath highlighted the fact that the Smithsonian has already raised \$1.45 billion or 97 percent toward the Smithsonian Campaign goal of \$1.5 billion, with only 82 percent of the Campaign timeline complete.

Mr. Horvath also noted that the National Museum of African American History and Culture (“NMAAHC”) is making great progress toward completion, with substantial construction on the building complete and exhibition installation well underway. The museum is on schedule for its grand opening to the public, to be held on September 24, 2016.

**participated by telephone*

FISCAL YEAR 2017 FEDERAL AND TRUST CONSOLIDATED BUDGET

Mr. Horvath presented the preliminary budget for fiscal year 2017. He reported that fiscal year 2017 is expected to begin with a continuing resolution (“CR”). The Smithsonian has requested \$922.2 million in federal appropriations, including \$759.2 million for Salaries and Expenses and \$163 million for Facilities Capital. Mr. Horvath also discussed anticipated Trust revenues for fiscal year 2017, which are projected to total \$660 million, indicating a \$9.5 million increase above the prior fiscal year.

In July, the House Interior Appropriations Committee provided their budget for the Smithsonian at \$863.4 million, and in June, the Senate Interior Appropriations Committee provided \$860.2 million. Given the current federal budget climate, the Smithsonian will plan for alternate funding scenarios, should the fiscal year 2017 budget be funded at, or slightly above the fiscal year 2016 enacted level. Management expects that the final budget of appropriated funds for fiscal year 2017 will be passed in the months following the 2016 Presidential election.

Upon motion duly made and seconded, the following action was approved for recommendation to the Board of Regents:

VOTED that the Finance Committee recommends that the Board of Regents approves the budget of appropriated funds for fiscal year 2017 when signed into law by the President, the institutional budget for Trust funds for fiscal year 2017 reflected in this report, and 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 2018 FEDERAL BUDGET UPDATE

Mr. Horvath updated the Committee on the fiscal year 2018 federal budget request to the Office of Management and Budget (“OMB”). The fiscal year 2018 budget would normally be due to OMB in September 2016; however, the budget has been delayed due to the Presidential Election. OMB has released guidance stating that the fiscal year 2018 budget will be submitted by the new president, after the 2016 Presidential Election. Management expects the budget submission will likely be due to OMB in early 2017, with the President’s Budget submission to follow in April or May of 2017.

UPDATE ON EXTERNAL DEBT

Mr. Horvath reviewed the status of the Smithsonian’s external debt. The Smithsonian’s current external debt is \$200 million. Fundraising and other business revenues are expected to meet the debt requirements. As of June 30, 2016, the Smithsonian’s short-term liquidity totaled \$241 million, which is sufficient to put towards the repayment of the external debt.

Mr. Horvath informed the Committee about the Smithsonian's proposed plans to construct a parking structure at the National Zoological Park that would expand parking capacity by approximately 400 cars and will free existing surface lots for other programmatic and exhibition uses. Mr. Horvath noted that Congressional authorization would be required for the project; however, construction of the facility is planned to be designed, built, financed, operated and maintained, without any federal funding, and limited, to no, funding from the Smithsonian's Trust. The implementation and financing for the new facility would be through a public-private partnership, in accordance with applicable Smithsonian policies, risk management best practices, and directives.

Lastly, Mr. Horvath provided an update on plans for the revitalization of the National Air and Space Museum, which is projected to be a five-year project, slated to begin in 2018. The museum first opened on July 1, 1976, and the revitalization will be the first major overhaul of the building's infrastructure since its construction. The extensive work is necessary to ensure that the building can continue to handle the large visitor numbers and provide the appropriate environment for the artifacts displayed and stored within it. The project will upgrade heating, air conditioning, lighting efficiency, electrical systems and sprinklers, and provide seismic upgrades. During the revitalization, the museum plans to simultaneously move forward with a complete refresh of the exhibits and galleries inside the building. Director General Jack Dailey is leading the effort to raise \$250 million in private funds to support the revitalization of the interior. Funding of the project anticipates that building renovations will be funded through federal appropriations, while interior updates to galleries will be supported through private gifts.

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. Three routine modifications were proposed that revise the Charter's language in order to accurately reflect current Committee practices and bring it more in-line with language used by other Regent Committees.

The first modification revises Charter language to allow the sitting Committee Chair to make membership recommendations to the Governance and Nominating Committee at any time throughout the year, instead of requiring recommendations only in the month of November. The second modification updates the Charter's current language, which requires that all committees maintain a Regent majority. The Board has previously approved non-Regent majorities on certain committees and the revised provision reflects the Board's decision on this matter. The last modification amends language regarding the appointment of a substitute to chair at meetings where the residing chair is unable to attend. The revised language allows for the Finance Committee Chair to appoint any member who will be present at the meeting to act as Chair.

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 approval by the Board of Regents of the proposed amendments to the Finance Committee Charter.

EXECUTIVE SESSION

The Committee then conducted an executive session to discuss the Smithsonian Channel Equity Put Option. The SNI/SI Network LLC (“Channel”) is a joint venture that was established in 2006 with Showtime Networks Inc. (“Showtime”). In 2011, the Smithsonian purchased additional equity interest in the Channel. The Smithsonian’s joint venture agreement with its partner, Showtime, provided that the Smithsonian could sell back (“put”) to its partner a portion, or all, of its ownership interest in 2014, 2016, or 2018. Under the agreement, Showtime is only obligated to execute against one of these possible dates. The Smithsonian declined to exercise this option in January 2014. The Board voted during its special telephonic meeting on May 1, 2016, to exercise the put option and sellback a portion of its equity stake in the Smithsonian Channel. On May 2, 2016, the Smithsonian initiated the formal put process by issuing a notice to Showtime. The Committee was updated on the status of the negotiations and discussed next steps on how best to proceed.

ADJOURNMENT

There being no further business to consider, the meeting was adjourned at 10:42 a.m.

Respectfully submitted,

David Rubenstein, Chair