

MINUTES OF THE AUGUST 27, 2018, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a meeting on August 27, 2018, at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair John Fahey and Committee members Representative Doris Matsui* and Roger W. Ferguson, Jr.*

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; 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); Liaison to Senator Perdue Lauren Hancock; Inspector General Cathy Helm;* Under Secretary for Finance and Administration/Chief Operating Officer Albert Horvath; Director of the Office of Government Relations Cheryl Johnson; Deputy Under Secretary for Finance and Administration Mike McCarthy; and Director of Planning, Management, and Budget David Voyles.

CALL TO ORDER

Committee Chair John Fahey called the meeting to order at 10:01 a.m.

APPROVAL OF THE MAY 17, 2018, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the May 17, 2018, Committee meeting were approved without modification.

FISCAL YEAR 2018 FINANCIAL RESULTS

Under Secretary for Finance & Administration/Chief Operating Officer Albert Horvath updated the Committee on the Smithsonian’s fiscal year 2018 performance, based on financial data gathered through June 30, 2018. The Smithsonian received \$1,043.3 million in fiscal year 2018 Federal appropriations. Philanthropic giving remains consistent and fundraising progress continues towards the annual goal, following the completion of the Smithsonian Campaign. Sponsored projects are performing on budget for fiscal year 2018. Smithsonian Enterprises (“SE”) revenues are below budget due in part to an expected drop in earnings from the initial opening of the National Museum of African American History and Culture. Additionally, the major capital projects, including restaurant closures, underway at both the National Air and Space Museum and the National Museum of Natural History have impacted retail sales revenues. Expenses remain on or below budget as there have been no material unanticipated expenses during the course of fiscal year 2018.

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 Smithsonian received \$198 million for Facilities Capital in fiscal year 2018 towards the NASM revitalization. The Smithsonian plans to finalize the cost structure, award the Guaranteed Maximum Price, and move forward with the early phases of construction before the end of the

fiscal year on September 30, 2018. The final \$10 million increment of federal funding for the Dulles Collections Storage Module 1 at the Udvar-Hazy Center (“UHC”) in Chantilly, Virginia, was received in fiscal year 2018. The Smithsonian engaged in a request for proposals process to design, build, finance, operate, and maintain the new centralized parking facility at the National Zoological Park, an estimated \$70 million project.

FISCAL YEAR 2019 FEDERAL AND TRUST CONSOLIDATED BUDGET

Mr. Horvath presented the preliminary budget for fiscal year 2019. The Smithsonian requested \$957 million in federal appropriations. The fiscal year 2019 budget request was submitted to the Office of Management and Budget prior to receiving the fiscal year 2018 appropriations, which included a substantial increase in Facilities Capital for the NASM revitalization. The levels of funding currently proposed by both the House and Senate would be higher than the fiscal year 2019 budget request. In July, the House Interior Appropriations Committee provided its budget for the Smithsonian at \$1,055.4 million, and in August, the Senate Interior Appropriations Committee provided a \$1,043.4 million budget. Management expects that the final budget of appropriated funds for fiscal year 2019 will be passed at or near the fiscal year 2018 enacted funding level.

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 budget of appropriated funds for fiscal year 2019 when signed into law by the President, the institutional budget for Trust funds for fiscal year 2019 reflected in the report, and authorizes expenditures by the Secretary in accordance therewith. Any materials changes in program plans incorporated into the budget shall be made only with the approval of the Board of Regents or its Executive Committee.

FISCAL YEAR 2020 FEDERAL BUDGET REQUEST TO OMB

The Committee was asked to recommend that the Executive Committee, on behalf of the full Board of Regents, approve the Smithsonian’s budget request for fiscal year 2020, for presentation to the Office of Management and Budget (“OMB”). The fiscal year 2020 federal budget request is due to OMB on September 10, 2018, prior to the Board meeting in October. Mr. Horvath reviewed the fiscal year 2020 federal budget process. The Institution expects to submit to Congress a total budget request for fiscal year 2020 of \$1,079.1 million, which includes \$779.1 million for Salaries and Expenses and \$300 million for Facilities Capital. The fiscal year 2020 budget request is based on previous requests and inclusive of inflationary cost increases and the Facilities Capital needed for the NASM revitalization and deferred maintenance and repairs.

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 budget request for appropriated funds for fiscal year 2020 for presentation to the Office of Management and Budget. 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.

EARLY REDEMPTION OF TAXABLE BONDS

Mr. Horvath briefed the Committee on management's request to retire the Smithsonian's Series 2013A taxable bond issuance in advance of its scheduled maturity in November 2023. The bonds were issued in 2013 to support the construction of the National Museum of African American History and Culture. Anticipating this early repayment, the Smithsonian would seek to establish a liquidity facility that would support both working capital or endowment needs in the future. Two options have been explored to provide liquidity: a line of credit or a commercial paper program.

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 early redemption of the Series 2013A taxable bonds. The Finance Committee further recommends that the Board of Regents approves the establishment of a liquidity facility (either bank line of credit or commercial paper program) of up to an aggregate amount of \$100 million (approval of specific details would be delegated to the Finance Committee).

EXECUTIVE SESSION

The Committee then conducted an executive session to discuss the personnel search for the President of Smithsonian Enterprises and a potential digital learning collaboration.

ADJOURNMENT

There being no further business to consider, the meeting was adjourned at 10:47 a.m.

Respectfully submitted,

John Fahey, Chair