

## **MINUTES OF THE MAY 14, 2024, FINANCE COMMITTEE MEETING**

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on May 14, 2024. Participating were Committee Chair Franklin Raines and Committee members Senator Catherine Cortez Masto; Representative Doris Matsui; John Fahey; Roger W. Ferguson, Jr.; and Kathryn Hall.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Chief Investment Officer Amy Chen; Under Secretary for Finance and Administration and Chief Financial Officer Ronald Cortez; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Director of Trust Resources, Office of Planning, Management, and Budget Rick Haas; President of Smithsonian Enterprises Carol LeBlanc; Deputy Chief Financial Officer and Controller John Lynskey; Chief of Staff for Representative Matsui, Jeremy Marcus; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Chief Legal Officer Jennifer McIntyre; Acting Inspector General Joan Mockeridge; Director of Federal Resources, Office of Planning, Management, and Budget Andrew Mosley; Deputy Secretary and Chief Operating Officer Meroë Park; Assistant Controller and Director of the Office of Finance and Accounting Kelli Polon; Assistant Secretary for Advancement Robert Spiller; and Deputy Chief of Staff for Senator Cortez Masto, Josh Yearsley.

### **CALL TO ORDER**

Committee Chair Frank Raines called the meeting to order at 12:00 p.m. and reviewed the agenda. Mr. Raines also welcomed Chief Legal Officer Jennifer McIntyre to her first Finance Committee meeting since joining the Smithsonian in March.

### **APPROVAL OF THE JANUARY 10, 2024, COMMITTEE MEETING MINUTES**

Upon motion duly made and seconded, the draft minutes of the January 10, 2024, Committee meeting were approved.

### **FISCAL YEARS 2024 AND 2025 FEDERAL APPROPRIATIONS**

Director of Federal Resources for the Office of Planning, Management, and Budget Andrew Mosley updated the Committee on the fiscal years 2024 and 2025 federal appropriations. Since the Committee last met in January, the Fiscal Year 2024 Consolidated Appropriations Act was passed on March 9. The Smithsonian received \$1,090.5 million, which includes \$892.9 million for Salaries and Expenses and \$197.6 million for Facilities Capital. The fiscal year 2024 Salaries and Expenses are at the same level as the fiscal year 2023 enacted, and Facilities Capital is \$54 million less than the fiscal year 2023 enacted. Mr. Mosley informed the Committee that the Smithsonian must entirely absorb the \$27 million pay increase in fiscal year 2024. To mitigate the impact of absorbing the pay raise, the Smithsonian is working with the Office of Management and Budget (“OMB”) and Congress to reprogram funds from central activities and provide funding increases to museums, research centers, and offices. Mr. Mosley also informed the Committee that the Smithsonian delivered the \$1,160.2 million fiscal year 2025 President’s Budget to Congress in

March. The Secretary will meet with the House Interior Appropriations Subcommittee to brief them on the Smithsonian FY 2025 budget request later in the year.

### **FISCAL YEAR 2026 FEDERAL BUDGET PRIORITIES**

Next, Mr. Mosley gave an update on the fiscal year 2026 federal budget priorities. The budget priorities, which support the Smithsonian’s strategic objectives, are used as the basis for formulating the Smithsonian’s fiscal year 2026 federal budget that is due to OMB in September 2024. The Committee reviewed the initial budget priorities for both Salaries and Expenses and Facilities Capital. Budget priorities include non-discretionary cost increases; increasing resources devoted to facilities maintenance and operations; supporting the two new museums, specifically near-term collections storage needs; and major capital projects. The FY 2026 budget priorities also include strategic priorities and program increases, including expanding the Smithsonian’s digital transformation; supporting education outreach; advancing science by increasing research and scientific collaborations; reinforcing the Smithsonian’s status as a trusted source, which includes implementing the Ethical Returns and Shared Stewardship and Human Remains Task Force; animal welfare; collections stewardship; security requirements; and promoting a nimble administration.

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 2026 federal budget priorities proposed by the Secretary.

### **FISCAL YEAR 2025 ENDOWMENT PAYOUT**

Next, Deputy Chief Financial Officer and Controller John Lynskey presented the fiscal year 2025 Endowment payout recommendation. The Smithsonian’s historical policy has been to pay out five percent of the trailing 20-quarter average market value of the Endowment 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 0.5 percent to support advancement activity, with projected payouts of approximately \$117.5 million and \$4.5 million, respectively.

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 a five (5) percent payout from the Smithsonian endowment in fiscal year 2025 to support programmatic and administrative activity. The Finance Committee further recommends up to 0.5 percent payout from the Smithsonian endowment in fiscal year 2025 to support advancement activity. The payout shall be calculated based on the trailing 20-quarter average market value of the Smithsonian Endowment Fund.

## QUASI-ENDOWMENT DRAW UPDATE

Deputy Secretary and Chief Operating Officer Meroë Park provided an update on the status of the \$30 million quasi-endowment draw from the Central Trust, which was previously approved by the Committee to fund 11 Secretarial strategic priorities. During fiscal year 2023, units spent 12 percent of the approved draw—roughly half of the budgeted amount. The unspent fiscal year 2023 funding remains available to units and was incorporated into the updated five-year spending plan. As of March 31, 2024, \$15.8 million has been approved for distribution through fiscal year 2024.

## ADDITIONAL WITHDRAWAL FROM THE CENTRAL TRUST UNRESTRICTED QUASI-ENDOWMENT

Next, the Committee reviewed a proposal to increase the unrestricted Central Trust quasi-endowment draw from \$30 million to \$60 million to fund America250 programming and initiatives and invest in the Smithsonian’s future. Mr. Raines reminded the Committee that payout recommendations must consider the current needs of the Institution and balance them against the need to protect the value of the endowment over the long-term. Details of the recommended withdrawal from the unrestricted endowment are as follows: celebrating the United States’ history on the National Mall (\$12 million); leveraging technology to create a better audience experience (\$10 million); reimaging the K-12 education platform and developing STEAM curriculum for the next generation of learners (\$4.5 million), and piloting new revenue-generating models (\$3.5 million).

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

**VOTED** that, whereas the Board of Regents previously approved a withdrawal not to exceed \$30.0 million from the Smithsonian’s unrestricted Central Trust endowment over five years to fund certain Secretarial priorities, the Finance Committee recommends that the Board of Regents approve withdrawal of an additional not to exceed \$30.0 million from the Smithsonian’s unrestricted Central Trust endowment over five years to fund initiatives related to celebrating the Nation’s 250th anniversary, including activities on the mall and around the nation in 2026, leveraging technology to create a better audience experience, reaching the next generation of learners in every classroom in America, and testing new revenue generating models.

## FISCAL YEAR 2024 FINANCIAL RESULTS TO DATE

Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez reviewed the financial results for fiscal year 2024 as of March 31, 2024. Mr. Cortez reminded the Committee that the Smithsonian began the fiscal year operating under a Continuing Resolution (“CR”) and the Consolidated Appropriations Act was not approved until March 2024, providing an enacted appropriation of \$1,090.5 million. The Committee received updates on the current status of revenues and expenses, as well as the projected budget outlook for the remainder of the fiscal year. Total revenues for the period totaled \$1,016.0 million and total expenses for the period

totaled \$1,086.0 million, which includes the accrual for imputed benefits and spending of funds carried forward from fiscal year 2023. Mr. Cortez noted there have been no material unanticipated expenses during the course of fiscal year 2024. The Central Trust Operating surplus outlook for fiscal year 2024 is forecasted at \$12.6 million, which is a \$16.4 million improvement from budget, and the Smithsonian is on track to eliminate the cumulative deficit in fiscal year 2024, resulting in a year-ending \$7.3 million projected cumulative deficit. Mr. Cortez also informed the Committee that the Smithsonian's credit rating was reaffirmed at an AAA/Stable rate from both Standard and Poor's and an Aaa/Negative rate from Moody's. While the Moody's outlook remained negative based on funding from the Federal government, which also had its outlook downgraded in November 2023, Moody's noted that the Institution has successfully navigated past funding issues demonstrating prudent financial planning and operational flexibility.

### **UNIT BUDGET REVIEW AND COMPARATIVE OPERATIONAL METRICS**

The Committee then reviewed the operating budgets of three Smithsonian units: the National Air and Space Museum, the National Portrait Gallery, and the Museum Conservation Institute. The review included the fiscal year 2024 operating fund status of each unit and unit spending related to Central Trust resources.

### **SMITHSONIAN ENTERPRISES UPDATE**

President of Smithsonian Enterprises Carol LeBlanc reviewed the financial performance of Smithsonian Enterprises ("SE") for fiscal year 2024. In the financial year to date, revenue performance has been lower than expected, driven by decreased visitor traffic and retail sales, media, and e-commerce. Net revenue and net gain versus budget for the period were \$1.9 million unfavorable and \$2.8 million favorable, respectively, and driven by overall expense management. Total revenue and net gain for fiscal year 2024 is forecasted at \$157.6 million and \$40.3 million, respectively, and is driven by travel and ecommerce sales of Giant Panda merchandise. The Committee also received updates on business highlights including launching phase two of the new Smithsonian e-commerce site, which will focus on building out the "Shop by Museum" experience and potential business development opportunity for exploring immersive experiences.

### **EXECUTIVE SESSION**

The Committee then entered into an executive session at approximately 1:55 p.m. to discuss confidential business matters.

### **ADJOURNMENT**

There being no further business to consider, the meeting was adjourned at 2:02 p.m.

Respectfully submitted,

Franklin Raines, Chair