

MINUTES OF THE SEPTEMBER 4, 2024, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on September 4, 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. Members of the Executive Committee also participated in the meeting, including Board and Executive Committee Chair Risa J. Lavizzo-Mourey and Vice Chair Barbara M. Barrett.

Also present by invitation of the Committee were Inspector General Nicole Angarella; Chief of Staff to the Secretary Greg Bettwy; Under Secretary for Finance and Administration and Chief Financial Officer Ronald Cortez; Director Facilities Management Tony Edmonds; Deputy Chief of Staff to the Regents Kate Forester; 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; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Chief Legal Officer Jennifer McIntyre; Director of Federal Resources, Office of Planning, Management, and Budget Andrew Mosley; Assistant Controller and Director of the Office of Finance and Accounting Kelli Polon; Under Secretary for Science and Research Ellen Stofan; Counselor and Chief of Staff to the Regents Porter Wilkinson; Deputy Chief of Staff for Senator Cortez Masto, Josh Yearsley.

CALL TO ORDER

Committee Chair Frank Raines called the meeting to order at 2:03 p.m. and reviewed the agenda. Mr. Raines also welcomed Inspector General Nicole Angarella to her first Finance Committee meeting since joining the Smithsonian in May.

APPROVAL OF THE MAY 14, 2024, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the May 14, 2024, Committee meeting were approved.

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.

FISCAL YEARS 2024 FINANCIAL RESULTS

Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez briefed the Committee on the Smithsonian’s fiscal year 2024 performance, based on financial data gathered through June 30, 2024. Mr. Cortez reminded the Committee that the Federal Capital Budget was reduced from \$251 million to \$197 million in FY 2024. Mr. Cortez informed the Committee that the positive financial results are largely attributed to Smithsonian Enterprises returning to pre-pandemic levels, the Endowment continuing to perform well, and improved cash management.

The Committee received updates on the status of revenues and expenses and reviewed financial information for operations and capital, cash and debt, financial statements, internal financial scorecards, and unit budgets. Total revenues for the period totaled \$1,427.0 million, 72 percent of plan. Total expenses for the period totaled \$1,472.0 million, 79 percent of plan, which include the spending of funds carried forward from fiscal year 2023. Mr. Cortez noted there have been no material unanticipated expenses during fiscal year 2024. The Central Trust revenue and surplus outlook for FY 2024 are forecasted at \$127.5 million and \$12.9 million, respectively. Mr. Cortez also noted that the Smithsonian is on track to eliminate the cumulative deficit in fiscal year 2024.

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 was reported at 5.7 percent below plan, driven by decreased visitor traffic and retail sales, media, and e-commerce. For the period ending June 30, 2024, net revenue was unfavorable versus budget by (\$6.5) million and net gain was favorable by \$2.4 million, driven by overall expense management. Total revenue and net gain outlook for the entire fiscal year 2024 is forecasted at \$156 million and \$40.3 million, respectively. The Committee also reviewed the fiscal year 2025 preliminary budget and received an update on SE’s key business priorities, licensing operations, and new capital projects. The preliminary fiscal year 2025 budget for net revenue and net gain before UBIT is forecasted at \$166.2 million and \$42.6 million, respectively. SE’s FY 2025 business priorities will be focused on the Smithsonian Channel, e-commerce, licensing, and new business.

FISCAL YEAR 2025 FEDERAL AND TRUST CONSOLIDATED BUDGET

The Committee then reviewed the fiscal year 2025 federal budget request to Congress. The Smithsonian requested a total of \$1,160.2 million for its fiscal year 2025 federal budget, which included \$960.2 million for Salaries and Expenses, and \$200 million for Facilities Capital. The U.S. House of Representatives passed the FY 2025 Interior Appropriations Bill in July at 17 percent below the FY 2025 request. The Senate Appropriations Committee also approved its markup of the FY 2025 Interior Appropriations Bill in July at four percent below the Smithsonian’s FY 2025 request. The Institution is preparing to begin fiscal year 2025 operating under a Continuing Resolution (“CR”). Mr. Cortez 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 Executive Committee:

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 2025 when signed into law by the President, and the Institutional budget totaling \$792.5 million for Trust funds and \$66 million for Non-Appropriated Federal funds for fiscal year 2025 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 2026 FEDERAL BUDGET REQUEST TO OMB

Director (Federal) of the Office of Planning, Management, and Budget Andrew Mosley reviewed the fiscal year 2026 federal budget request to the Office of Management and Budget (“OMB”). The Institution expects to submit a total budget request for fiscal year 2026 of \$1,286.0 million, which includes \$1,031.0 million for Salaries and Expenses and \$ 255 million for Facilities Capital. This represents a \$195.5 million increase compared to the fiscal year 2024 enacted amount and a \$125.8 million increase compared to the fiscal year 2025 requested amount. The fiscal year 2026 budget request is based on the funding priorities approved by the Finance Committee and the Board of Regents in May 2024 and June 2024, respectively. Mr. Mosley informed the Committee that the Smithsonian provided three budget scenarios to OMB that include a 0.2 percent increase, a 4.3 percent increase, and a 10.8 percent increase above the fiscal year 2025 Congressional request level, noting that Smithsonian leadership would have the opportunity to readdress strategic priorities prior to Congressional submission. Mr. Mosley also explained that the budget request is due to OMB by September 9, 2024, 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 Executive Committee:

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 \$1,286.0 million appropriation budget request to the Office of Management and Budget for fiscal year 2026. 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.

SERC SOLAR ARRAY

Next, the Committee reviewed a request for a \$12.61 million loan from the Central Trust to build a 4-megawatt solar array at the Smithsonian Environmental Research Center (“SERC”) campus in Edgewater, MD. The advance would be charged at 2 percent interest and the full loan payback is projected in 19.5 years. The advance will be repaid utilizing multiple sources of revenue, including a 30% rebate from the Inflation Reduction Act, the net metering of surplus electricity, and the public sale of solar renewable energy credits. Any changes to the Inflation Reduction Act would necessitate a reevaluation of the proposed project. Upon completion of the project, electric procurement costs could be eliminated at SERC, saving central federal utilities funds.

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 \$12.61 million advance from Central Trust to build a 4- megawatt (MW) solar array at the Smithsonian Environmental Research Center (SERC) in Edgewater, MD.

QUASI-ENDOWMENT DRAW UPDATE

Mr. Cortez then provided an update on the status of the \$60 million quasi-endowment draw from the Central Trust, \$30 million to be used to fund 11 Secretarial strategic priorities and \$30 million to invest in the Nation’s 250th anniversary celebration. As of June 31, 2024, units have spent or obligated 44 percent of the \$12.1 million that was approved for distribution through fiscal year 2024. The remaining amount will be distributed from fiscal year 2025 to fiscal year 2029. Mr. Cortez informed the Committee that units have developed their fiscal year 2025 spending plans, which are being reviewed by the Office of Planning, Management and Budget prior to submission to the Deputy Secretary and the Under Secretary for Finance and Administration/ Chief Financial Officer.

UNIT BUDGET REVIEW AND COMPARATIVE OPERATIONAL METRICS

The Committee had an opportunity to ask questions related to the read-ahead information provided on the operating budgets of three Smithsonian units: the National Museum of Natural History; the Archives of American Art; and the Office of Planning, Management and Budget. The review included the fiscal year 2024 operating fund status of each unit and unit spending related to Central Trust resources.

The Committee also had an opportunity to ask questions related to the financial scorecards provided on the Office of Advancement, grants and contracts activities, and Office of Inspector General and financial audits.

ADJOURNMENT

There being no request for an executive session and with no further business to discuss, the meeting was adjourned at approximately 3:47 p.m.

Respectfully submitted,

Franklin Raines, Chair