

MINUTES OF THE JANUARY 13, 2023, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on January 13, 2023. Participating were Committee Chair Roger W. Ferguson, Jr. and Committee members Representative Doris Matsui, John Fahey, Kathryn Hall, and Franklin Raines.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Associate General Counsel Craig Blackwell; Controller in the Office of Finance and Accounting Jennifer Case; Under Secretary for Administration Ron Cortez; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Director (Trust) of the Office of Planning, Management, and Budget Rick Haas; President of Smithsonian Enterprises Carol LeBlanc; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Director (Federal) of the Office of Planning, Management, and Budget Andrew Mosley; Deputy Secretary and Chief Operating Officer Meroë Park; Director of Investment Operations Allen Rumanyika; Assistant Secretary for Advancement Robert Spiller; and Director of Operations for Representative Doris Matsui, Nora Taktajian.

CALL TO ORDER

Committee Chair Roger Ferguson called the meeting to order at 1:00 p.m. and reviewed the agenda. Mr. Ferguson informed the Committee of organizational changes within the Office of Finance and Accounting, including the departure of Chief Financial Officer Janice Lambert.

APPROVAL OF THE AUGUST 25, 2022, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the minutes of the August 25, 2022, Committee meeting were approved.

FISCAL YEAR 2022 FINANCIAL RESULTS

Under Secretary for Administration Ron Cortez briefed the Committee on the Smithsonian’s fiscal year 2022 performance, which closed on September 30, 2022. Mr. Cortez reported that revenues for the period totaled \$1,724 million. Overall, the Smithsonian’s primary revenue sources performed on or ahead of budget for fiscal year 2022. Mr. Cortez noted that the Smithsonian received \$1,062.2 million in federal appropriations for fiscal year 2022, which was enacted on March 15, 2022, and was \$39.8 million less than the Smithsonian’s funding request to Congress. Expenses for fiscal year 2022 totaled \$1,748.1 million, which reflects the spending of funds carried forward from fiscal year 2021. There were no material unanticipated expenses during fiscal year 2022. Mr. Cortez informed the Committee that expenses were above budget on most major capital projects due to historically higher contract obligation, staffing, and supply chain issues associated with the COVID-19 pandemic. The Committee also reviewed the Central Trust revenue and deficit for fiscal year 2022. Mr. Cortez concluded that the Smithsonian’s net operating loss for the year totaled \$24.16 million.

SMITHSONIAN ENTERPRISES FINANCIAL RESULTS

President of Smithsonian Enterprises Carol LeBlanc updated the Committee on Smithsonian Enterprises (“SE”) operations. Ms. LeBlanc reviewed the financial performance of SE for fiscal year 2022. For the period ending September 30, 2022, revenue totaled \$116.1 million, driven by strong retail sales. SE finished fiscal year 2022 at a net gain of \$24.1 million, \$10.0 million favorable versus budget. The increase was driven by retail and offset by media, e-commerce, and travel. Ms. LeBlanc reported the net gain resulted in Smithsonian Enterprises contributing \$6.2 million of revenue to the Central Trust, compared to two prior years of deficits caused by the pandemic. The Committee also reviewed the major highlights to SE business activities in fiscal year 2022. SE finalized the purchase of the Carousel on the National Mall in November 2022; selected NSI International as the new toy science kit licensee with significantly favorable terms; and signed a G Adventure active travel deal with Journey.

FINANCIAL STRATEGY UPDATE

Next, Mr. Cortez led a discussion on the Central Trust cumulative deficit and structural deficit, and strategies identified by Smithsonian leadership to address the financial impact on the Institution’s Trust budget, and the underlying Central Trust deficit. The Committee also discussed the withdrawal of funds from the Smithsonian’s unrestricted Central Trust quasi-endowment to fund 11 Secretarial priorities in the areas of digital transformation, resourcing opportunities, and accelerating strategic priorities. Mr. Cortez shared that the Smithsonian is moving forward with a new mid-term investment fund strategy and is making progress in the selection of an Investment Manager to take advantage of better rates through Treasury ladders (or comparable securities). This investment will help address the cumulative deficit in the Central Trust (CT). Additional next steps to address the structural deficit include continuing work to control expenses and a five-year future focus on enhancing revenue.

FISCAL YEAR 2023 FEDERAL APPROPRIATION UPDATE

Director (Federal) of the Office of Planning, Management, and Budget Andrew Mosley briefed the Committee on the fiscal year 2023 federal appropriation. Mr. Mosley reminded the Committee that the Smithsonian began fiscal year 2023 operating under a Continuing Resolution (“CR”) until December. On December 29, 2022, the President signed the Consolidated Appropriations Act of 2023 that includes annual funding for the Smithsonian within the appropriation for the Department of Interior, Environment and Related Agencies. The bill provides \$1,144.5 million for the Smithsonian, which is \$82.3 million above the fiscal year 2022 appropriation and \$30 million below the fiscal year 2023 request of \$1,174.5 million. The total amount for fiscal year 2023 includes \$892.9 million for Salaries and Expenses and \$251.6 million for Facilities Capital, for a total of \$1,144.5 million.

FISCAL YEAR 2024 FEDERAL BUDGET REQUEST TO CONGRESS

Mr. Mosley also briefed the Committee on the status of the fiscal year 2024 federal budget request to Congress. The Smithsonian submitted its fiscal year 2024 budget request to the Office

of Management and Budget (“OMB”) in September 2022 and continues to work through final review with OMB before submission of the budget request to Congress. Mr. Mosley noted that the federal budget is normally submitted to Congress in early February, however, due to the delayed appropriations for fiscal year 2023, OMB deferred the “Passback” for fiscal year 2024. As a result, the Finance Committee will present the motion for the Board’s consideration after the Smithsonian concludes its negotiations with OMB and the fiscal year 2024 federal budget request is finalized.

ADJOURNMENT

There being no further business to consider and with no request for an executive session, the meeting was adjourned at 2:18 p.m.

Respectfully submitted,

Roger W. Ferguson, Jr., Chair