

MINUTES OF THE JUNE 4, 2025, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on June 4, 2025. Participating were Committee Chair Franklin D. Raines and Committee members Senator Catherine Cortez Masto; Representative Doris Matsui; John Fahey; Roger W. Ferguson, Jr.; and Jose Minaya. Members of the Facilities Committee also participated in the meeting, including Representative Adrian Smith, Risa J. Lavizzo-Mourey, and Mitchell Schear.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Director of the Office of Government Relations Anne Brachman; Chief Investment Officer Amy Chen; Counsel to the Inspector General Epin Christensen; Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez; Director for the Office of Facilities Management and Reliability Tony Edmonds; 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; Chief of Staff to Representative Adrian Smith, Josh Jackson; Deputy Chief Financial Officer and Controller John Lynskey; Chief of Staff to Representative Doris Matsui, Jeremy Marcus; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marenco; Chief Legal Officer Jennifer McIntyre; Director of Federal Resources, Office of Planning, Management, and Budget Andrew Mosley; Deputy Controller and Director of the Office of Finance and Accounting Kelli Polon; Assistant Secretary for Advancement Rob 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 2:00 p.m. and reviewed the agenda. He welcomed the members of the Facilities Committee, who joined to participate in the discussion on the Arabian leopard exhibit project. Mr. Raines also welcomed Chair of the Investment Committee Jose Minaya to his first Finance Committee meeting.

APPROVAL OF THE JANUARY 15, 2025, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the January 15, 2025, 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.

OVERVIEW FROM THE UNDER SECRETARY FOR FINANCE AND ADMINISTRATION/CFO

Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez provided a brief financial overview, including an update on Moody's Investors Service ("Moody's Ratings") and its revised outlook on the United States Federal Government, and the subsequent change in

the credit rating of the government and associated entities, including the Smithsonian. On May 19, the Smithsonian's credit rating with Moody's received a one-notch downgrade from Aaa negative to Aa1 stable. Mr. Cortez noted that the revised rating is still high on the investment grade scale and the rating opinion included the Institution's many strengths as a basis for continued exceptional credit quality.

ARABIAN LEOPARD EXHIBIT PROJECT

Next, Mr. Cortez led a discussion on the proposed funding strategy to construct, operate, and maintain a state-of-the-art public Arabian leopard exhibit. The National Zoological Park and Conservation Biology Institute ("NZCBI") has an opportunity to exhibit two Arabian leopards, made possible by a potential \$50 million gift from the Kingdom of Saudi Arabia. There are fewer than 200 Arabian leopards existing in the wild. The project is well-aligned with NZCBI's experience in helping endangered species recover from the precipice of extinction and its strengths in captive breeding, reintroduction, habitat restoration, training, technology transfer, and international collaborations. The Facilities Committee and Finance Committee reviewed the initial funding scope, project timeline, and proposed exhibit area. Mr. Raines also reminded the Committee that the recommendation is contingent on a gift/endowment expected to be made by the Kingdom of Saudi Arabia.

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 proposed funding strategy to construct, operate, and maintain a state-of-the-art public Arabian leopard exhibition at the National Zoological Park contingent on a \$50 million gift/endowment from the Kingdom of Saudi Arabia.

FISCAL YEAR 2025 FEDERAL APPROPRIATION UPDATE

Andrew Mosley, Director of Federal Resources for the Office of Planning, Management, and Budget, updated the Committee on the fiscal year 2025 federal appropriation. In FY2025, the Smithsonian received \$1,090.5 million, which includes \$892.9 million for Salaries and Expenses, and \$197.6 million for Facilities Capital. Both the fiscal year 2025 Salaries and Expenses and Facilities Capital are at the same level as the fiscal year 2024 enacted level. Mr. Mosley informed the Committee that the Smithsonian absorbed the FY2025 federal pay increase totaling \$16.3 million. The Smithsonian also reprogramed funds from central activities and provided small funding increases to several museums, research centers, and offices to mitigate the impact of the pay raise and address increasing costs. Mr. Mosley also informed the Committee that the FY2025 Facilities Capital allocations for the Hirshhorn Museum Sculpture Garden and the Pod 6 collections storage facility in Suitland, MD, will complete the federal funding for those two major capital projects.

FISCAL YEAR 2027 FEDERAL BUDGET PRIORITIES

Mr. Mosley also gave an update on the fiscal year 2027 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 2027 federal budget that is due to the Office of Management and Budget ("OMB") in September 2025. 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; and supporting areas of programmatic focus as outlined in the *Smithsonian 2027: Our Shared Future*, five-year Strategic Plan.

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 2027 federal budget priorities proposed by the Secretary.

FISCAL YEAR 2026 ENDOWMENT PAYOUT

Next, Deputy Chief Financial Officer and Controller John Lynskey presented the fiscal year 2026 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 recently an additional annual payout to support advancement activity. Smithsonian management recommended the continuation of a five percent payout to support trust programmatic activity, and a payout of up to 0.5 percent to support advancement activity, with projected payouts of approximately \$128.6 million and \$4.7 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 5.0% payout from the Smithsonian Endowment in fiscal year 2026 to support programmatic and administrative activities. The Finance Committee further recommends up to 0.5% payout from the Smithsonian Endowment in fiscal year 2026 to support advancement activity. The payout shall be calculated based on the trailing 20-quarter average market value of the Smithsonian Endowment Fund.

FISCAL YEAR 2025 FINANCIAL RESULTS TO DATE

The Committee was then briefed on the financial results for fiscal year 2025 as of March 31, 2025. Mr. Cortez explained that the working capital and short-term investment funds continued to do well and outpaced FY2024 so far by \$2.7 million. Initial projections prepared in FY2021 reflected a potential Central Trust cumulative deficit of over \$50 million in FY2024, but with increased revenues from Smithsonian Enterprises, improved cash management, and rising interest rates, the Institution is now projected to have a cumulative surplus of \$28.2 million at year-end. It was also

noted that membership net gain continued to decline from FY2022. The Office of the Under Secretary for Finance and Administration is working closely with the Office of Advancement to enhance efforts to increase membership. The Committee reviewed financial and working capital and cash and investments. The Committee also received an update on advances to units from the Central Trust and the bond debt restructuring of Series 2003 variable bonds for the National Air and Space Museum's Steven F. Udvar-Hazy Center located in Chantilly, Virginia.

KPMG MANAGEMENT LETTER RECOMMENDATION

Next, John Lynskey updated the Committee on the corrective action plan to address two recommendations provided by the Smithsonian's external auditors, KPMG, LLP ("KPMG") in the management letter and required communications from the fiscal year 2024 audit. The management letter recommendations include enhancing policies and procedures over (1) the review of key account reconciliations and (2) IT system user access. Mr. Lynskey noted that there were no material weaknesses or significant deficiencies reported in the financial statements audit and all updates and implementation of the policies and procedures related to the two recommendations are either completed or in process.

QUASI-ENDOWMENT DRAW UPDATE

To conclude, the Committee received an update on the status of the quasi-endowment draw and reviewed the five-year spending plan. Mr. Cortez reminded the Committee that the Board of Regents authorized a withdraw of up to \$60 million from the Central Trust Quasi-Endowment through the end of FY 2029 to fund strategic priorities. At the start of fiscal year 2025, \$41.8 million remained available for distribution through fiscal year 2029. As of March 31, 2025, units spent 25 percent of the approved fiscal year's budget of \$23.1 million. Mr. Cortez noted that any unspent portion of the fiscal year 2025 budget will be distributed during fiscal year 2026 through fiscal year 2029.

BACKGROUND INFORMATION

The Committee then had an opportunity to ask questions related to the background information provided on the financial scorecards for advancement, grants and contracts, and financial audits.

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 3:26 p.m.

Respectfully submitted,

Franklin Raines, Chair