

MINUTES OF THE JANUARY 15, 2025, FINANCE COMMITTEE MEETING

The Finance Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) held a videoconference meeting on January 15, 2025. Participating were Committee Chair Franklin D. Raines and Committee members Representative Doris Matsui; John Fahey; and Roger W. Ferguson, Jr.

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 Ron Cortez; 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; Chief of Staff to Representative Doris Matsui, Jeremy Marcus; Chief Legal Officer Jennifer McIntyre; 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; Director of Investment Operations Allen Rumanyika; Assistant Secretary for Advancement Rob Spiller; Counselor and Chief of Staff to the Regents Porter Wilkinson; and Deputy Chief of Staff for Senator Cortez Masto, Josh Yearsley.

CALL TO ORDER

Committee Chair Frank Raines called the meeting to order at 10:00 a.m. and reviewed the agenda.

APPROVAL OF THE SEPTEMBER 4, 2024, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the September 4, 2024, Committee meeting were approved.

OVERVIEW FROM THE CHIEF FINANCIAL OFFICER

Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez provided a brief overview on the Smithsonian’s financial position, including federal funding and strategies to increase the Smithsonian’s trust budget.

FISCAL YEAR 2025 FEDERAL BUDGET UPDATES

Director of Federal Resources for the Office of Planning, Management, and Budget Andrew Mosley updated the Committee on the status of the fiscal year 2025 federal appropriations. Mr. Mosley reminded the Committee that the Smithsonian began FY 2025 operating under a Continuing Resolution (“CR”) through December 20, 2024. The U.S. House and Senate passed a second CR (H.R. 10545) to extend federal spending and avert a government shutdown through March 14, 2025. Mr. Mosley noted that the CR extends funding at current FY 2024 spending levels for the Smithsonian. The Smithsonian requested \$1,160.2 million in federal appropriations, \$960.2 million for Salaries and Expenses and \$200 million for Facilities Capital. Mr. Mosely informed the Committee that the House and Senate took initial actions on the FY 2025 Interior Appropriations bill in July but have taken no further actions to date.

FISCAL YEAR 2026 FEDERAL BUDGET REQUEST TO CONGRESS

Next, Mr. Mosely briefed the Committee on the fiscal year 2026 federal budget request. As a result of the transition to a new administration, the federal budget process for fiscal year 2026 has been delayed. Mr. Mosley noted that during a presidential transition year, budget submission deadlines are routinely delayed. Mr. Mosely also reminded the Committee that the Smithsonian's FY 2026 submission to the Office of Management and Budget included three budget funding scenarios, and the Institution is preparing for potential long-term decreases in federal funding. It was noted the Committee would postpone the anticipated motion approving submission of the fiscal year 2026 federal budget request to Congress. The Committee will be asked to review and vote on the FY 2026 federal budget request at a later date.

FISCAL YEAR 2024 FINANCIAL RESULTS TO DATE

Mr. Cortez then reviewed the fiscal year 2024 financial results, following the close of the fiscal year on September 30, 2024. Mr. Cortez noted that the Smithsonian saw positive financial results from enhanced cash management policies, rising interest rates, and increased revenue from Smithsonian Enterprises. Initial projections prepared in FY 2021 reflected a potential Central Trust cumulative deficit of over \$50 million in FY 2024, however the Central Trust cumulative deficit was eliminated in fiscal year 2024. The Central Trust ended the fiscal year with a net positive position and a cumulative surplus of \$19.9 million.

The Committee reviewed the closing financial statements and received updates on the status of revenues and expenses. Total revenues for the period totaled \$1,924 million, and total expenses for the period totaled \$ 1,877 million, which include the spending of funds carried forward from fiscal year 2023. There were no material unanticipated expenses during fiscal year 2024. Mr. Cortez informed the Committee that assets increased five percent in FY 2024 and net operating income/loss, which is computed after depreciation but before Federal capital appropriations, decreased by \$53.9 million due to an increase in operating expenses. It was also noted that the federal capital budget was reduced from \$251 million to \$197 million in FY 2024.

Assistant Secretary for Advancement Rob Spiller then discussed fiscal year 2024 fundraising results, specifically from membership. The membership net gain continued to decline from \$6.0 million in FY 2022, to \$4.2 million in FY 2024. Mr. Spiller noted this is due to the cost of delivering the membership program, particularly increases in postage costs, event costs, and Smithsonian magazine print costs. Philanthropic support through Friends of the Smithsonian membership provides unrestricted funds for the Institution and will be a focus area in fiscal year 2025 to increase the Smithsonian's trust budget, as the Institution prepares for potential long-term decreases in federal funding.

To conclude, Deputy Chief Financial Officer and Controller John Lynskey reviewed the status of advances made from the Central Trust to Smithsonian units. Progress continues to be made in collecting advances, with one write-off occurring in FY 2024. Smithsonian leadership is proposing various courses of action to recover funds from the units in the event of non-payment, and a set of principles has been established to determine whether an advance write-off is appropriate.

STEVEN F. UDVAR-HAZY CENTER EXPANSION DEBT RESTRUCTURING

The Committee was then asked to evaluate a bond debt restructuring proposal of Series 2003 variable bonds for the National Air and Space Museum's Steven F. Udvar-Hazy Center located in Chantilly, Virginia. The restructuring is aimed at recognizing savings over the life of the bonds, realizing positive cash flow, and reducing risk associated with variable rates. The Smithsonian received technical advice on restructuring its external debt, including \$77.5M related to the Udvar-Hazy Center. Mr. Cortez informed the Committee that converting the variable bonds to a fixed rate, is estimated to save \$4.6 million in net present value savings, as well as decrease future uncertainty with the payments. It was also noted that approval of the motion would also be required by Board of Regents.

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

VOTED that the Finance Committee recommends that the Board of Regents approves restructuring the Hazy Series 2003 variable rate bonds as presented, with fixed coupon, tax-exempt, refunding bonds.

SMITHSONIAN ENTERPRISES FISCAL YEAR 2024 FINANCIAL RESULTS

President of Smithsonian Enterprises Carol LeBlanc reviewed the fiscal year 2024 financial year-end performance of Smithsonian Enterprises ("SE"). For the period ending September 30, 2024, net revenue was unfavorable versus budget by (\$8.9) million, however net gain was favorable by \$1.7 million, driven primarily by overall expense management. Ms. LeBlanc cited lower than expected museum visitation, which impacted retail operations and food and beverage sales, although Smithsonian Journeys had strong performance during fiscal year 2024.

The Committee also reviewed the fiscal year 2025 budget. SE's net revenue and net gain projection for fiscal year 2025 is forecasted at \$166.5 million and \$43.6 million, respectively, driven primarily retail and travel. Ms. LeBlanc highlighted that key revenue drivers will include the reopening of the National Air and Space Museum East End, a full year of operations at the Mitsitam Cafe in the National Museum of the American Indian, and the public debut of giant pandas Bao Li and Qing Bao at the Smithsonian's National Zoo and Conservation Biology Institute.

The Committee then discussed potential business highlights for SE in FY 2025 including immersive experiences, e-commerce, retail, and a potential hotel collaboration for Smithsonian Journeys.

QUASI-ENDOWMENT DRAW UPDATE

Deputy Secretary and Chief Operating Officer Meroë Park updated the Committee on the status of the \$60 million Central Trust Quasi-Endowment draw, which is being used to fund initiatives related to celebrating the Nation's 250th anniversary and fund strategic priorities, focused primarily in three categories: digital transformation, resourcing investment opportunities, and accelerating the Secretary's strategic priorities. The Committee reviewed the status of the fiscal

year 2024 allocation, as well as the yearly spending plans through fiscal year 2029. As of September 30, 2024, units had spent or obligated 69% of the \$12.4 million that had been approved for distribution through fiscal year 2024. The remaining amount will be distributed from fiscal year 2025 to fiscal year 2029. Deputy Secretary Park also shared that units have developed their fiscal year 2025 spending plans, which have been approved by the Under Secretary for Finance and Administration/CFO and Deputy Secretary/COO, and the Deputy Secretary and four Under Secretaries continue to review the status of the initiatives quarterly.

BACKGROUND INFORMATION

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

ADJOURNMENT

There being no further business to consider, and with no request for an executive session, the meeting was adjourned at 11:43 a.m.

Respectfully submitted,

Franklin D. Raines, Chair