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SMITHSONIAN
INSTITUTION

Funding for Real Property Needs Remains a Challenge

Statement of Mark L. Goldstein, Director
Physical Infrastructure Issues



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Highlights

Highlights of GAO-07-725T, a testimony to the Senate Committee on Rules and Administration

Why GAO Did This Study

The Smithsonian Institution (Smithsonian) is the world's largest museum complex and research organization. The age of the Smithsonian's structures, past inattention to maintenance needs, and high visitation levels have left its facilities in need of revitalization and repair.

This testimony discusses our prior work on some effects of the condition of the Smithsonian's facilities and whether the Smithsonian has taken steps to maximize facility resources. It also discusses the current estimated costs of the Smithsonian's needed facilities projects. In addition, it describes preliminary results of GAO's ongoing work on the extent to which the Smithsonian developed and implemented strategies to fund these projects, as GAO recommended in prior work.

The work for this testimony is based on GAO's 2005 report, *Smithsonian Institution: Facilities Management Reorganization Is Progressing, but Funding Remains a Challenge*; GAO's review of Smithsonian documents and other pertinent information; and interviews with Smithsonian officials.

www.gao.gov/cgi-bin/getrpt?GAO-07-725T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark L. Goldstein at (202) 512-2834, goldsteinm@gao.gov.

SMITHSONIAN INSTITUTION

Funding for Real Property Needs Remains a Challenge

What GAO Found

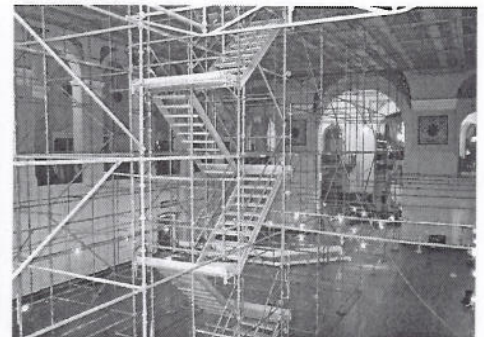
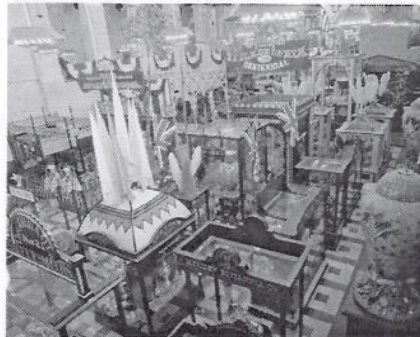
In 2005, GAO reported that facilities-related problems at the Smithsonian had resulted in a few building closures and posed a serious long-term threat to the collections. For example, the 1881 Arts and Industries Building on the National Mall was closed to the public in 2004 for an indefinite period over concern about its deteriorating roof structure. Currently, this building remains closed. GAO also found that the Smithsonian had taken steps to maximize the effectiveness of its existing resources for facilities.

Preliminary results of GAO's ongoing work indicate that as of March 30, 2007, the Smithsonian estimated it would need about \$2.5 billion for its revitalization, construction, and maintenance projects from fiscal year 2005 through fiscal year 2013, up from an estimate of \$2.3 billion in 2005. In 2005, GAO recommended that the Smithsonian develop and implement a strategic funding plan to address its facilities needs.

The Smithsonian Board of Regents—the Smithsonian's governing body—has taken some steps to address GAO's recommendation regarding a strategic funding plan. The board created an ad-hoc committee, which, after reviewing nine options, such as establishing a special exhibition fee, decided to request an additional \$100 million annually in federal funds for facilities for the next 10 years, for a total of an additional \$1 billion. The President's fiscal year 2008 budget proposal, however, proposes an increase of about \$44 million over the Smithsonian's fiscal year 2007 appropriation. It is not clear how much of this proposed increase would be used to support facilities, and how Congress will respond to the President's budget request. Absent significant changes in the Smithsonian's funding strategy or significant increases in funding from Congress, the Smithsonian faces greater risk to its facilities and collections over time.

GAO is continuing to evaluate the Smithsonian's efforts to strategically manage, fund, and secure its real property. We expect to publish a report on these issues later this year.

Arts and Industries Building, 1977 (left) and February 2005 (right)



Source: Smithsonian Institution.

Madam Chairman and Members of the Committee:

Thank you for the opportunity to testify before you today on our work regarding the Smithsonian Institution's (Smithsonian) facilities management and funding challenges. Since its founding in 1846, the Smithsonian, which is funded through its own private trust fund assets and its federal appropriation, has evolved into the world's largest museum complex and research organization, with more than 660 owned and leased buildings and other structures, with an estimated replacement value of about \$4.7 billion for owned space as of June 2004. The age of the Smithsonian's structures, past inattention to maintenance needs, and high visitation levels have left its facilities in need of revitalization and repair. Facilities problems include the structural deterioration of aging buildings; heating, cooling, and electrical systems that are well past their normal life expectancy; leaks from roofs and pipes that jeopardize the collections; inadequate exhibition and storage space; and maintenance levels that have not kept pace with the wear and tear from millions of visitors each year. In 2005, the Smithsonian estimated it would need about \$2.3 billion through fiscal year 2013 for its identified revitalization, construction, and maintenance projects.

In my statement today, I will be focusing on the results of our 2005 study of the Smithsonian's facilities management and funding issues—*Smithsonian Institution: Facilities Management Reorganization Is Progressing, but Funding Remains a Challenge*¹—as well as some preliminary results from an ongoing study we have undertaken of the Smithsonian's real property management at the request of this committee and the House of Representatives Committee on Appropriations, Subcommittee on Interior, Environment, and Related Agencies. I will be discussing our prior work on some effects of the condition of the Smithsonian's facilities and whether the Smithsonian has taken steps to maximize the effects of its resources for facilities; current estimated costs of the Smithsonian's revitalization, construction, and maintenance projects; and some preliminary results of our ongoing work on the extent to which the Smithsonian developed and implemented strategies to fund its revitalization, construction, and maintenance needs, as we recommended in prior work.

¹ *Smithsonian Institution: Facilities Management Reorganization Is Progressing, but Funding Remains a Challenge*, GAO-05-369 (Washington, D.C.: April 25, 2005).

In summary:

- In our 2005 report, we found that facilities-related problems at the Smithsonian had resulted in a few building closures and access restrictions and posed a serious long-term threat to the collections. For example, the 1881 Arts and Industries Building on the National Mall was closed to the public in 2004 for an indefinite period over concern about its deteriorating roof structure and pending the repair or replacement of its weakened roof panels and aging systems such as heating and cooling. Currently, this building remains closed. In addition, we found that these problems were indicative of a broad decline in the Smithsonian's aging facilities and that in some cases, items in the Smithsonian's collections had been damaged by water. We also found that the Smithsonian had taken steps to maximize the effectiveness of its existing resources for facilities, such as adopting a variety of recognized industry best practices for managing facilities projects.
- Preliminary results from our ongoing work show that as of March 30, 2007, the Smithsonian estimates it will need about \$2.5 billion for revitalization, construction, and maintenance projects identified from fiscal year 2005 through fiscal year 2013, an increase of about \$200 million from its 2005 estimate of about \$2.3 billion for the same time period. Smithsonian officials stated that to update this estimate, they identified changes that had occurred to project cost figures used in the 2005 estimate and then subtracted from the new total the appropriations the Smithsonian had received for facilities revitalization, construction, and maintenance projects for fiscal years 2005-2007. In our previous work, we recommended that the Smithsonian develop and implement a strategic funding plan to address its facilities needs.
- Preliminary results also suggest that the Smithsonian has taken some steps to address our recommendation to develop and implement a strategic funding plan to address its facilities needs. In June 2005, the Smithsonian Board of Regents—the Smithsonian's governing body, which is comprised of both private citizens and members of all three branches of the federal government—established the ad-hoc Committee on Facilities Revitalization to explore options to address the about \$2.3 billion the Smithsonian estimated it needed for facilities revitalization, construction, and maintenance projects through fiscal year 2013. According to Smithsonian officials, after reviewing nine options, such as establishing a special exhibition fee, the ad-hoc committee decided in 2006 to request an additional \$100 million annually in federal funds for facilities over its current appropriation for 10 years, starting in fiscal year 2008, to reach a total of an additional \$1 billion. In September 2006, according to Smithsonian officials, several members of the Board of Regents and the Secretary of the Smithsonian met with the President of the United States

to make this request. The President's fiscal year 2008 budget proposal, however, proposes an increase of about \$44 million over the Smithsonian's fiscal year 2007 appropriation, and it is not clear how much of this increase would be used to support facilities. Some of these funds could be used to support research, collections, and exhibitions, among other things. Moreover, Congress may choose to modify the President's budget proposal when funds are appropriated for the fiscal year.

- The Smithsonian's estimate for revitalization, construction, and maintenance needs has increased at an average of about \$100 million a year over the past 2 years. Therefore, the Smithsonian's request for an additional \$100 million a year may not actually reduce the Smithsonian's estimated revitalization, construction, and maintenance needs but only offset the increase in its estimate. Absent significant changes in the Smithsonian's funding strategy or significant increases in funding from Congress, the Smithsonian faces greater risk to its facilities and collections over time.
- We are continuing to evaluate the Smithsonian's efforts to strategically manage, fund, and secure its real property. Our objectives include assessing (1) the extent to which the Smithsonian is strategically managing its real property portfolio, (2) the extent to which the Smithsonian has developed and implemented strategies to fund its revitalization, construction, and maintenance needs, and (3) the Smithsonian's security cost trends and challenges, including the extent to which the Smithsonian has followed key security practices to protect its assets. We are also examining how other similar institutions, such as other museums and university systems, strategically manage, fund, and secure their real property. We expect to report on these issues later this year.

Past Work Showed that Smithsonian's Aging Facilities and Systems Threaten Collections

In our 2005 report, we found that facilities-related problems at the Smithsonian had resulted in a few building closures and access restrictions and some cases of damage to the collections. A few facilities had deteriorated to the point where access must be denied or limited. For example, the 1881 Arts and Industries Building on the National Mall was closed to the public in 2004 for an indefinite period, pending repair of its weakened roof panels, renovation of its interior (which had been damaged by water intrusion), and replacement of aging systems such as heating and cooling. Currently, this building remains closed. Other facilities also faced problems. We found that water leaks caused by deteriorated piping and roofing elements, along with humidity and temperature problems in buildings with aging systems, posed perhaps the most pervasive threats to artifacts in the museums and storage facilities. For example, leaks have damaged two historic aircraft at the National Air and Space Museum. Additionally, Smithsonian Archives officials told us that they had had to

address 19 “water emergencies” since June 2002. These problems were indicative of a broad decline in the Smithsonian’s aging facilities and systems that posed a serious long-term threat to the collections.

We also found that the Smithsonian had taken steps to maximize the effectiveness of its resources for facilities. These changes resulted from an internal review and a 2001 report by the National Academy of Public Administration, which recommended that the Smithsonian centralize its then highly decentralized approach to facilities management and budgeting in order to promote uniform policies and procedures, improve accountability, and avoid duplication. The Smithsonian created the Office of Facilities Engineering and Operations in 2003 to assume responsibility for all facilities-related programs and budgets. At the time of our 2005 review, this office was adopting a variety of recognized industry best practices for managing facilities projects, such as the use of benchmarking and metrics recommended by the Construction Industry Institute and leading capital decision-making practices.²

Preliminary Data Show that the Smithsonian’s Estimated Costs for Facilities Projects through Fiscal Year 2013 Have Increased Since 2005

Preliminary results from our ongoing work show that as of March 30, 2007, the Smithsonian estimates it will need about \$2.5 billion for revitalization, construction, and maintenance projects identified from fiscal year 2005 through fiscal year 2013, an increase of about \$200 million from its 2005 estimate of about \$2.3 billion for the same time period.³ Smithsonian officials stated that to update this estimate, they identified changes that had occurred to project cost figures used in the 2005 estimate and then subtracted from the new total the appropriations the Smithsonian had received for facilities revitalization, construction, and maintenance projects for fiscal years 2005-2007.

According to Smithsonian officials, this estimate includes only costs for which the Smithsonian expects to receive federal funds. Projects that have been or are expected to be funded through the Smithsonian’s private trust

² GAO, *Executive Guide: Leading Practices in Capital Decision-Making*, GAO/AIMD-99-32 (Washington, D.C.: December 1998.)

³ The Smithsonian’s estimated revitalization and new construction costs are driven in part by the need to modernize or add systems such as fire detection and alarm and security systems and to comply with newer code requirements such as those for handicapped accessibility to buildings and restrooms. Maintenance costs include such things as staff costs, minor repair and maintenance projects, and other contracts, supplies, materials, and equipment for Smithsonian’s maintenance program.

funds were not included as part of the estimate, although the Smithsonian has used these trust funds to support some facilities projects. For example, the Steven F. Udvar-Hazy Center was funded largely through trust funds. According to Smithsonian officials, maintenance and capital repair projects are not generally funded through trust funds.

At the time of our 2005 report, Smithsonian officials told us that the Smithsonian's estimate of about \$2.3 billion could increase for a variety of reasons. For example, the estimate was largely based on preliminary assessments. Moreover, in our previous report, we found that recent additions to the Smithsonian's building inventory—the National Museum of the American Indian and the Steven F. Udvar-Hazy Center—and the reopening of the revitalized Donald W. Reynolds Center for American Art and Portraiture⁴ on July 1, 2006 would add to the Smithsonian's annual maintenance costs.

According to Smithsonian officials, the increase in its estimated revitalization, construction, and maintenance costs through fiscal year 2013 from about \$2.3 billion in our 2005 report to about \$2.5 billion as of March 30, 2007, was due to several factors. For example, Smithsonian officials said that major increases had occurred in projects for the National Zoo and the National Museum of American History because the two facilities had recently had master plans developed that identified additional requirements.⁵ In addition, according to Smithsonian officials, estimates for anti-terrorism projects had increased due to adjustments for higher costs experienced and expected for security-related projects at the National Air and Space Museum. According to Smithsonian officials, the increase also reflects the effect of delaying corrective work in terms of additional damage and escalation in construction costs.

⁴ At the time of our 2005 report (GAO-05-369), this building was referred to as the Patent Office Building. Its name was changed during its revitalization.

⁵ A master plan is a proposal of a comprehensive renovation and/or expansion of a complex that aligns the physical plant with the organization's strategic goals. It includes proposals such as making the complex conform to current codes, and meeting technology and security requirements. This process can also involve such things as upgrading and replacing major building systems, including the electrical, plumbing, fire suppression, and heating and air conditioning systems, as well as reinforcing the complex's structural integrity and removing asbestos. Master plans also identify changes in building use and expansion requirements to meet mission needs.

According to Smithsonian officials, the Smithsonian's March 30, 2007, estimate of about \$2.5 billion could also increase, as the about \$2.3 billion estimate was largely based on preliminary assessments, and therefore, as the Smithsonian completes more master plans, more items will be identified that need to be done. Moreover, this estimate does not include the estimated cost of constructing the National Museum of African American History and Culture, which was authorized by Congress and which the Smithsonian notionally estimates may cost about \$500 million, half of which is to be funded by Congressional appropriations.

The Smithsonian's annual operating and capital program revenues come from its own private trust fund assets and its federal appropriation. According to Smithsonian officials, the Smithsonian's federal appropriation totaled nearly \$635 million in fiscal year 2007, with about \$99 million for facilities capital and about \$536 million for salaries and expenses, of which the facilities maintenance appropriation, which falls within the salaries and expenses category, was about \$51 million.⁶ In our previous work, we found that the facilities projects planned for the next 9 years exceeded funding at this level.⁷ As a result, we recommended that the Secretary of the Smithsonian establish a process for exploring options for funding its facilities needs and engaging the key stakeholders—the Smithsonian Board of Regents, the Administration, and Congress—in the development and implementation of a strategic funding plan to address the revitalization, construction, and maintenance projects identified by the Smithsonian.

⁶ According to Smithsonian officials, the Smithsonian's fiscal year 2007 appropriation included \$98,554,760 for facilities capital and \$536,295,000 for salaries and expenses, of which the facilities maintenance appropriation was \$51,277,000.

⁷ Our recommendation was based on funding at the level of Smithsonian's fiscal year 2004 appropriation, which totaled \$904 million, with \$184.4 million for facilities.

The Smithsonian Has Taken Some Steps to Address Our Recommendation to Develop and Implement a Funding Strategy

Smithsonian officials told us during our current review that the Smithsonian Board of Regents—the Smithsonian’s governing body, which is comprised of both private citizens and members of all three branches of the federal government—has taken some steps to address our recommendation. In June 2005, the Smithsonian Board of Regents established the ad-hoc Committee on Facilities Revitalization to explore options to address the about \$2.3 billion the Smithsonian estimated it needed for facilities revitalization, construction, and maintenance projects through fiscal year 2013. In September 2005, the ad-hoc committee held its first meeting, at which it reviewed nine funding options that had been prepared by Smithsonian management for addressing the about \$2.3 billion in revitalization, construction, and maintenance projects through fiscal year 2013. These options included the following:

- Federal income tax check off contribution, in which federal income tax returns would include a check-off box to allow taxpayers to designate some of their tax liability to a special fund for the Smithsonian’s facilities.
- Heritage treasures excise tax, in which an excise tax would be created, and possibly levied on local hotel bills, to generate funds for the Smithsonian’s facilities.
- National fundraising campaign, in which the Smithsonian would launch a national campaign to raise funds for its facilities.
- General admission fee program, in which the Smithsonian would institute a general admission charge to raise funds for critical but unfunded requirements.
- Special exhibition fee program, in which the Smithsonian would charge visitors to attend a select number of special exhibitions as a means to raise funds to meet critical but unfunded requirements.
- Smithsonian treasures pass program, in which the Smithsonian would design a program through which visitors could purchase a Smithsonian treasures pass with special benefits, such as no-wait entry into facilities or behind-the-scenes tours, to raise funds to meet critical but unfunded requirements.
- Facilities revitalization bond, in which the Smithsonian would borrow funds such as through a private or public debt bond for the Smithsonian’s facilities.
- Closing Smithsonian museums, in which the Smithsonian would permanently or temporarily close museums to the public in order to generate savings to help fund its facilities.
- Increasing Smithsonian appropriations, in which the Board of Regents and other friends of the Smithsonian would approach the Administration about a dramatic appropriations increase to fund Smithsonian’s facilities.

According to Smithsonian officials, after considering these nine proposed options, the ad-hoc committee decided to request an increase in the Smithsonian's annual federal appropriations, specifically deciding to request an additional \$100 million over the Smithsonian's current appropriation annually for 10 years, starting in fiscal year 2008, to reach a total of an additional \$1 billion.

In September 2006, according to Smithsonian officials, several members of the Board of Regents and the Secretary of the Smithsonian met with the President of the United States to discuss the issue of increased federal funding for the Smithsonian's facilities. According to Smithsonian officials, during the meeting, among other things, the Regents discussed the problem of aging facilities and the need for an additional \$100 million in federal funds annually for 10 years to address the institution's facilities revitalization, maintenance, and construction needs. According to Smithsonian officials, the representatives of the Smithsonian at the meeting told the President that they had no other options to obtain this \$100 million except the Smithsonian's federal appropriation. According to Smithsonian officials, these representatives said the Smithsonian had made considerable expense cuts and raised substantial private funds, but donors are unwilling to donate money to repair and maintain facilities.

The President's fiscal year 2008 budget proposal, published in February 2007, proposed an increase of about \$44 million over the Smithsonian's fiscal year 2007 appropriation. The Smithsonian's appropriation is divided into two categories. The about \$44 million increase in the President's budget proposal represented an increase of about \$9 million for facilities capital and an increase of about \$35 million for salaries and expenses, which includes facilities maintenance.⁸ However, funds in the salaries and expenses category also support many other activities, such as research, collections, and exhibitions, and it is not clear how much of the \$35 million increase the Smithsonian would use for facilities maintenance. Moreover, Congress may choose to adopt or modify the President's budget proposal when funds are appropriated for the fiscal year.

As part of our ongoing work, we are reviewing the Smithsonian's analysis of each funding option, including its potential for addressing its

⁸ Specifically, the President's fiscal year 2008 budget proposal for the Smithsonian's appropriation proposed \$107,100,000 for facilities capital and \$571,347,000 for salaries and expenses.

revitalization, construction, and maintenance needs. We plan to report on these issues later in the year.

Concluding Observations

The Smithsonian's estimate for revitalization, construction, and maintenance needs has increased at an average of about \$100 million a year over the past 2 years. Therefore, the Smithsonian's request for an additional \$100 million a year may not actually reduce the Smithsonian's estimated revitalization, construction, and maintenance needs but only offset the increase in this estimate. Absent significant changes in the Smithsonian's funding strategy or significant increases in funding from Congress, the Smithsonian faces greater risk to its facilities and collections over time. Since our work is still ongoing, it remains unclear why the Smithsonian has only pursued one of its nine options for increasing funds to support its significant facilities needs. At this time, we still believe our recommendation that the Smithsonian explore a variety of funding options is important to reducing risks to the Smithsonian's facilities and collections.

Madam Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee may have at this time.

Scope and Methodology

We conducted our work for this testimony in March 2007 in accordance with generally accepted government auditing standards. Our work is based on our past report on the Smithsonian's facilities management and funding, our review of Smithsonian documents, and interviews with Smithsonian officials. Specifically, we reviewed the Smithsonian's revised estimated costs for major revitalization projects from fiscal year 2005 through fiscal year 2013 and documents from the Board of Regents. We also reviewed the President's fiscal year 2008 proposed budget and the Smithsonian's federal appropriations from fiscal years 2005-2007.

We are continuing to evaluate the Smithsonian's efforts to strategically manage, fund, and secure its real property. Our objectives include assessing (1) the extent to which the Smithsonian is strategically managing its real property portfolio, (2) the extent to which the Smithsonian has developed and implemented strategies to fund its revitalization, construction, and maintenance needs, and (3) the Smithsonian's security cost trends and challenges, including the extent to which the Smithsonian has followed key security practices to protect its assets. We are also examining how similar institutions, such as other museums and university systems, strategically manage, fund, and secure their real property. We expect to report on these issues later this year.

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