

**Committee on House Administration
U.S. House of Representatives
Hearing on Smithsonian Business Ventures
Testimony of Lawrence M. Small
Secretary of the Smithsonian Institution
May 25, 2006**

The Smithsonian Institution is the world's largest and most respected provider of museum experiences, supported by authoritative scholarship, that connects Americans to their cultural heritage and also acts as an international leader in scientific research and exploration. With 19 museums and galleries, numerous research centers, the National Zoo, and 136.5 million objects in its vast and priceless collections, there is nothing quite like it on the planet. Last year, the Smithsonian attracted more than 24 million visitors, a 24% increase over fiscal year 2004, and its magazines and Web sites were accessed in excess of 150 million times.

The Smithsonian is not a federal agency; it's not in the Executive Branch; it's a unique independent trust entity and was established as such by Congress in 1846, after years of debate, to ensure that scholarly research and exploration would be unaffected by changing political climates. The Smithsonian is governed by its Board of Regents, members include the Chief Justice of the United States, the Vice President of the United States, three members of the Senate, three members of the House of Representatives, and nine citizens. The Chief Justice of the United States has traditionally served as chancellor of the Smithsonian.

The Smithsonian relies on federal funds for roughly 75% of its budget; this includes direct congressional appropriations and also federal grants and contracts. The Smithsonian Institution's federal budget contains two accounts: Salaries and Expenses, for the ongoing operations of the Smithsonian, and the Facilities Capital account for the Institution's physical infrastructure. Unfortunately, today the Smithsonian is an institution with a severely deteriorated infrastructure, outdated technology, and many aged, outmoded exhibitions.

Although progress has been made, the April 2005 report of the Government Accountability Office (GAO) makes it clear that the Institution has a well-documented and compelling need for dramatic increases in facilities revitalization and maintenance funding. The GAO indicates that \$255 million per year for the next 9 years, or a total of \$2.3 billion, is needed to fix and maintain the Institution's facilities. To eradicate its facilities revitalization and maintenance backlog over the next decade, the Smithsonian would need an increase in its annual federal appropriation in excess of \$100 million more than the current level. Additional federal support is necessary because private sector funds aren't forthcoming for the mundane, yet essential, maintenance tasks of fixing leaky roofs, rusted beams, crumbling stone, and ancient, inefficient heating and cooling systems in buildings that have been maintained with federal funds for a century plus.

In addition to the federal contribution, the Smithsonian has trust funds, which include contributions from private sources, for example, endowments; donations from individuals, corporations and foundations; and memberships—in total, the Smithsonian has raised roughly \$1 billion from the private sector since 2000. Among other things, those funds helped to build the National Museum of the American Indian on the national mall, the National Air and Space Museum's Steven F. Udvar-Hazy Center near Dulles Airport in Virginia, the National Museum of American History's Hall of Transportation, and the National Museum of Natural History's Hall of Mammals. Trust funds also include net revenues from the Smithsonian's magazines, mail-order catalog, product development, entertainment, shops and restaurants, and concessions, which are collectively known internally by the organizational name "Smithsonian Business Ventures" or "SBV."

Unrestricted funds are all the more important today because, with various pressures on the federal budget, the Smithsonian is well aware that it must do all that it can to raise funds from other sources in order to revitalize current exhibitions, create new exhibitions, build new museums and continue the national outreach and education programs that serve millions of Americans across the country wherever they live.

Such programs include the Smithsonian Institution Traveling Exhibition Service, the largest traveling exhibition service in the world, which reaches nearly five million people across the country every year; our Smithsonian Affiliations Program, which lends some of our 136.5 million objects to museums large and small across the nation, and now has 143 affiliate museums in 39 states, Washington, D.C., Panama, and Puerto Rico; the Smithsonian Associates, which offers hundreds of lectures, trips and seminars every year; our Folklife Festival, which reaches a million people every year on the National Mall; and our many education resources, which reach millions of students and teachers every year. You don't have to live in the nation's capital to take advantage of what we have to offer.

In 1968, Secretary S. Dillon Ripley established Smithsonian Museum Shops. In 1970, *Smithsonian* magazine was launched, initially funded by an anonymous gift; its earnings were used to fund trust positions and to add to the Smithsonian endowment. In 1973, the Business Management Office was created in the Financial Services group to oversee the various Smithsonian business activities.

When Secretary Michael Heyman became Secretary of the Smithsonian in 1994, he believed business practices could be improved, modernized and expanded. In 1998, the Board of Regents formed an *ad hoc* committee on business, chaired by former Senator Howard Baker, to evaluate and offer recommendations on the Institution's business structure and practices, and potential for future growth. The committee studied similar organizations such as the National Geographic Society, Minnesota Public Radio and the Harvard Management Company, which all dealt with "similar goals in environments dominated by programmatic missions." These organizations also created a centralized business entity to operate in support of the parent organization. The study found that no other non-profit organization was able to expand its business without doing so.

In 1998, the Regents authorized Secretary Heyman to establish a distinct operating division of the Institution, Smithsonian Business Ventures (SBV), which would report to the Secretary and an outside board to oversee SBV activities. In 1999, Secretary Heyman recruited Gary Beer to be the founding Chief Executive Officer of SBV. Beer had been the co-founder, with Robert Redford, of the highly successful group of media and retailing ventures established under the "Sundance" brand.

SBV brought together under one division a number of existing business activities and, in recent years, SBV has launched several new businesses. The commercial businesses run by SBV include: museum retail stores, restaurants and IMAX theaters; magazine publishing (*Smithsonian*, and *Air & Space* magazines, and the popular visitor's guide *My Smithsonian*); catalogue and Internet sales of Smithsonian products; licensing of the Smithsonian brand for specific products manufactured and sold by third parties; book publishing with partner HarperCollins; educational group travel through Smithsonian Journeys; and television programming (Smithsonian On Demand) with partner CBS/Showtime Inc.

In fiscal year 2005 (ending Sept. 30), SBV operations contributed \$30 million to the Institution, and, from 2000 to 2005, a cumulative total of \$155 million. These are funds used for exhibitions, programs and activities not funded by federal taxpayer dollars. Although SBV contributes less than 4 percent of the Smithsonian's total annual budget, it is critical to the Institution because the unrestricted funds it produces are not earmarked for specific projects, as are most philanthropic gifts, and it fills vital funding needs that otherwise would not be met. SBV's contribution to the Smithsonian accounts for nearly one-half of the Institution's total unrestricted trust funds each year.

For many years the Smithsonian had sought to establish a presence on television to showcase the Institution's vast resources, collections, exhibitions, archives and curatorial expertise to further its mission, the "increase and diffusion of knowledge." With the full support of its Board of Regents, Smithsonian staff pursued discussions with several large media organizations and negotiated an agreement in 2006 with CBS/Showtime Networks Inc. to create a new company called Smithsonian Networks, which will produce a new cable TV offering known as "Smithsonian on Demand." The Smithsonian did not have the resources or expertise necessary to enter the world of television production itself.

Smithsonian Networks will allow the Institution, for the first time and in its own voice, to share its national collections and research with millions of people nationwide. If the new partnership is successful, the earnings it generates will go to support exhibitions and a wide range of public activities for which the Smithsonian does not receive federal funding.

While creating a new approach to communicate with what is expected be millions more people than the Smithsonian currently reaches involves a certain degree of complexity, the Institution has succeeded in creating an arrangement that will result in immaterial change to the way it has interacted in the past with its many constituencies.

The agreement affects only proposals to film Smithsonian resources for commercial distribution and broadcast where that proposed use is more than incidental. Consequently, the terms of the new agreement affect only a narrow set of programs and are not a bar to other legitimate commercial filmmakers who have the right to reasonable access to the collections and staff of the Smithsonian. In fact, an analysis of approximately 900 media contracts signed between 2000 and 2005 shows the overwhelming use of Smithsonian resources is for academic, curriculum-based, or scholarly purposes, which are outside the scope of the agreement and will continue as they have in the past, or for incidental use in commercial films, which is permitted under the agreement. Only 17 agreements, fewer than 2 percent, appear to have involved more than incidental use of Smithsonian resources.

Access to the national collections and to the expertise of our curators is a fundamental part of the Smithsonian's 160-year-old mission. Access to Smithsonian collections, archives and libraries for research remains unchanged. Researchers, teachers, and journalists continue to have full access for news and public affairs, academic, and scholarly purposes. And the Smithsonian is committed to keeping the Congress up to date and informed as to the progress of this exciting new service to the American people, as well as other innovations we may develop which harness 21st-century technology.

The Smithsonian plays a valuable role in our nation's civic, scientific, and cultural life. What the Smithsonian does for everyone it touches, whether through visits to museums, time spent reading *Smithsonian* magazine, surfing Web sites, or participating in Smithsonian lectures and tours, is reconnect people to their heritage, to invite people to understand how this nation has grown to be so astonishingly vital. The Smithsonian tells the story of what it means to be an American. Everyone at the Smithsonian takes that charge quite seriously, and is honored to do so.

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