

MINUTES OF THE MAY 15, 2024, FACILITIES COMMITTEE MEETING

The Facilities Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) conducted a videoconference meeting on May 15, 2024. Participating were Committee Chair John Fahey and Committee members Risa J. Lavizzo-Mourey and Mitchell N. Schear.

Also present by invitation of the Committee were Chief of Staff to the Secretary Greg Bettwy; Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez; Director for the Office of Facilities Management and Reliability Tony Edmonds; Deputy Under Secretary for Finance and Administration Rick Flansburg; Deputy Chief of Staff to the Regents Kate Forester; Special Assistant to the Regents Mallory Gianola (recorder); Under Secretary for Museums and Culture Kevin Gover; Assistant Secretary for Communications and External Affairs and Chief Marketing Officer Julissa Marengo; Chief Legal Officer Jennifer McIntyre; Acting Inspector General Joan Mockeridge; Director of Federal Resources for the Office of Planning, Management, and Budget Andrew Mosley; Assistant General Counsel Anne Nelson; Deputy Secretary and Chief Operating Officer Meroë Park; Director of the Office of Planning, Design, and Construction Derek Ross; Assistant Secretary for Advancement Rob Spiller; and Counselor and Chief of Staff to the Regents Porter Wilkinson.

CALL TO ORDER

Committee Chair John Fahey called the meeting to order at 1:00 p.m. and reviewed the agenda.

REVIEW OF THE MARCH 7, 2024, COMMITTEE MEETING MINUTES

The Committee reviewed the draft minutes of the March 7, 2024, meeting.

COMMITTEE CHARTER REVIEW

The Committee reviewed its Charter per its mandate to annually review and assess the Charter and evaluate the Committee’s performance with respect to its requirements. No modifications to the Charter were proposed.

REAL ESTATE UPDATE

Deputy Under Secretary for Administration Rick Flansburg updated the Committee on the Smithsonian’s real estate portfolio, specifically the status of five lease renewals anticipated in fiscal year 2024. Mr. Flansburg highlighted three leases still pending a briefing to the Committee, including: the Apollo Drive building located in Largo, MD; Concord Avenue building located in Cambridge, MA; and 5 & 15 Wayside building located in Burlington, MA.

The Committee also discussed the Real Estate Program Improvement Plan, which identifies areas for improvement and tracks the activities necessary to enhance the Smithsonian’s real estate program goals, processes, resources, tools, and reporting. Mr. Flansburg informed the Committee that proposed improvement actions include updating Smithsonian Directive 416: Real Estate Management (“SD416”) and the Real Estate Manual; assessing portfolio tools and lease structure; and identifying staffing, funding, and contract support. Mr. Flansburg also reminded the Committee that the Smithsonian contracted with Jones Lang LaSalle (“JLL”) to assess the Smithsonian’s real estate program and assist senior leadership in developing a real estate implementation plan, and the proposed improvement actions are supported by the findings reported by JLL.

CAPITAL GALLERY RIGHT OF FIRST OFFER

Under Secretary for Finance and Administration and Chief Financial Officer Ron Cortez updated the Committee on the Capital Gallery Right of First Offer (“ROFO”). The Capital Gallery purchase agreement, executed in June 2020, included a ROFO opportunity from December 26, 2023, to June 26, 2024. The Smithsonian had two alternatives to purchase space in Capital Gallery (1) floors 7 and 8 in the East Tower; or (2) floors 1, 2, 7, 8, and the parking garage – the balance of the building. At its meeting in March 2024, the Facilities Committee endorsed the Secretary and Under Secretary’s recommendation not to pursue the Right of First Offer included in the 2020 purchase agreement. Mr. Cortez reminded the Committee that the Smithsonian is conducting a comparative analysis between purchasing portions of the Capital Gallery outside the ROFO structure and acquiring another building within Washington, D.C. This additional analysis will include a space study, purchase and lease options, and tax considerations. Results of the comparative analysis will be provided to the Committee and Smithsonian leadership to enable the Institution to make a more informed decision by weighing each option’s potential long-term benefits and costs.

CAPITAL PROGRAM COST CONTAINMENT STUDIES

Director of the Office of Planning, Design, and Construction Derek Ross updated the Committee on the capital program cost containment studies conducted for Smithsonian capital cost overruns, which can potentially limit the Institution’s ability to pursue other important capital projects and address the deferred maintenance backlog. In September 2023, in response to recent unanticipated capital program cost increases, an internal team was formed to conduct a root cause analysis. Smithsonian leadership also engaged Williams Sale Partnership (“WSP”) to assess Smithsonian processes and internal controls, and to obtain recommendations on a sustainable way forward. The Smithsonian Facilities team has completed three out of four phases of the study, including the federal agency comparison, independent cost estimate, and process assessment. Mr. Ross noted that final recommendations will be presented to the Committee, but findings so far support the original assumptions: (1) costs of material and labor are difficult to estimate and continue to increase; and (2) other agencies are facing the same issues.

FACILITIES CONDITIONS AND DEFERRED MAINTENANCE

Director of the Office of Facilities Management and Reliability Tony Edmonds led a discussion on Smithsonian facilities conditions and deferred maintenance. The Smithsonian's overall Facilities Condition Index increased slightly in fiscal year 2023 to 77% (Fair). Increased funding and well-targeted investments are needed to improve the Institution's facilities and infrastructure. Ongoing and planned actions to improve facilities conditions include increased staffing; improving facilities management and operations to address conditions as much as possible; informing leadership to help target facilities investments to address greatest needs; and seeking further, justified maintenance budget increases.

The Committee also reviewed the deferred maintenance backlog, which has increased due to a decline in reported conditions, inflation, and updated property valuations. Mr. Edmonds informed the Committee that the increase in Current Replacement Value ("CRV") of Smithsonian property, which has been driven mostly by inflation, has magnified the deferred maintenance growth. Conditions have also largely been driven by maintenance funding levels, as federal funding has decreased.

MAJOR CAPITAL PROJECTS UPDATE

The Committee received updates on four major capital projects. Construction of the collections storage facility ("Pod 6") at the Museum Support Center in Suitland, Maryland, is underway and on track with the project timeline, with completion slated in 2025. Collections moves for the Smithsonian Institution and National Gallery of Art are slated for 2025 and 2026. Construction is also ongoing for the revitalization of the Sculpture Garden at the Hirshhorn Museum and Sculpture Garden ("HMSG"). The project schedule is on track with the revised approach and the Smithsonian team is in the process of evaluating six construction packages as part of the revised project. Revitalization of the Smithsonian Institution Building ("Castle") is ongoing. Bids for construction management services were received in August 2023, and exceeded budget projections. Documents have been repackaged and will be reissued for bids in Spring 2024. Construction will take place in three phases: demolition and hazmat, foundations and sitework, and the balance of exterior and interior work. The Committee also reviewed the status of improvements to the Giant Panda habitats at the National Zoo. The interior exhibits, habitats, and exterior animal years need renovation to accommodate updated requirements for the habitation of Giant Pandas from the China Wildlife Conservation Association, in preparation for the return of Giant Pandas to the National Zoo.

EXECUTIVE SESSION

The Committee then moved into an executive session at approximately 2:23 p.m. to discuss confidential business matters.

ADJOURNMENT

With no further business to consider, the meeting was adjourned at approximately 2:32 p.m.

Respectfully submitted,

John Fahey, Chair

EMAIL BALLOT

Due to a lack of quorum at the scheduled meeting, the Committee voted to approve the following motion via email ballot sent on May 16, 2024.

VOTED that the Facilities Committee approves the minutes of its meeting of March 7, 2024.