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President Trump and Federal Reserve Chair Jerome Powell toured the Fed's headquarters renovation Thursday in Washington. CHIP SOMODEVILLA/ GETTY IMAGES



The project to refurbish the Federal Reserve's headquarters has been plagued by groundwater problems, soil contamination and the rising cost of building materials. JONATHAN ERNST/ REUTERS

Asbestos, Toxic Soil, Inflation Drive Up Fed Renovation Costs

Yearslong project in Washington swells to \$2.5 billion, spurs attacks by Trump

By Nicole Friedman, Nancy Keates and Nick Timiraos

WASHINGTON—The Federal Reserve's headquarters renovation was ambitious from the start: refurbish and modernize two stately, nearly century-old buildings in a major city. Then it hit the swamp.

Higher- than- expected groundwater lurked beneath the site, situated around former wetlands, and needed to be drained. There was also asbestos, and toxic contamination in the soil. All of that, combined with rising costs of materials from pandemic shortages and inflation, pushed up the cost of the renovations. A project with an estimated budget of \$1.9 billion in 2023 ballooned to \$2.5 billion by 2025.

But it is more than a monster renovation headache. The staggering cost has given the Fed's critics an opening to push for changes at the central bank and a fresh line of attack against Fed Chair Jerome Powell. President Trump and administration officials, who have grown frustrated that the Fed hasn't lowered interest rates faster, have blasted the expensive renovation, calling it unnecessarily lavish. Trump has even suggested he could try to fire Powell as a result.

Trump toured the Fed's construction site Thursday afternoon with White House advisers—including Powell's most vocal critics—ramping up the pressure campaign on the Fed chair.

Reporters were escorted through the construction site Thursday morning, where between 700 and 800 workers across two shifts are on the job. The tour showcased how security upgrades, including blastresistant windows, have been another large driver of costs.

Erecting a brand-new building would have been cheaper than renovating two historic buildings, Fed staff said.

Opponents have said the finishings are too elaborate, criticizing features like a "garden terrace." The Fed said it has cut back on some design elements, and that the garden terrace is a ground-level lawn on top of underground parking. The goal of the renovations, the Fed said, is to update and modernize the buildings and preserve some elegant, original features such as stonework.

Architects and construction experts said cost overruns are

to be expected with such a project. For one thing, overall construction costs have surged in the past five years. The Fed project is particularly complicated because of rules around renovating historic federal buildings. Like many federal projects constrained by the capital's height restrictions or other aesthetic concerns, the Fed had to build expensive underground space.

What's more, the building project sits alongside land that was part of the Potomac River and was filled in to create the National Mall. And the Fed made multiple design changes in response to commissions that oversee planning and design for federal properties in the Washington area.

"Almost every project that involves existing buildings, especially historic buildings, has these kinds of issues," said Shalom Baranes, founder of the architecture firm that designed the additions to a different Fed building called the Martin building. "There are always unforeseen conditions and changes."

The Martin building had its own lengthy renovation a few years back and reopened in 2021. The continuing renovation of two other Fed buildings is what has drawn the attention of the president and GOP lawmakers in recent weeks. Both of those, the Eccles building and 1951 Constitution Ave., date to the 1930s. The latter was unoccupied and in poor condition when the Fed acquired it.

The Fed decided about eight years ago to renovate those two buildings, though the construction didn't ramp up until around 2022. Construction is expected to be finished at the end of 2027.

The Fed said the renovations will enable it to save money in the long term, by spending less on renting office space elsewhere in Washington. It will also bring many employees into one central campus. The Fed said the two buildings

hadn't been fully renovated since the 1930s, had lead contamination and needed safety and security upgrades. Staffers have described leaky ceilings and antiquated electrical systems.

The Fed covered the project's cost overruns by cutting that same amount from other capital projects, including canceling the planned renovation of another building. The renovation estimate includes the cost of the buildings' furnishings and equipment, a Fed spokesperson said.

The project involves building five-story additions onto both buildings, a three-story parking garage under one of the buildings and a tunnel to connect the buildings, according to plans the Fed submitted to a planning commission in 2021.

The water table was higher underground than builders had predicted, the Fed said. To keep the excavations dry, geotechnical firm Keller North America installed 34 dewatering wells up to 60 feet deep, according to a description of the project on the firm's website. The description was taken down this week. Keller didn't respond to requests for comment.

Baranes said that dealing with the renovation of a historic building tends to be complicated, in part because the original drawings tend not to reflect exactly what was built.

Excavation costs are usually three times higher when the project involves a renovation, because it is more complicated to build necessary infrastructure under existing buildings, said Bob Hanson, the principal partner of North Palm Beach, Fla., construction management company Nationwide Consulting, which has worked on Defense Department projects.

In addition, the Fed said that changes it made to its plans in response to feedback from federal commissions, including the National Capital Planning Commission and the Commission of Fine Arts, increased costs.

For example, members of the Commission of Fine Arts recommended in 2020 that the Fed use more marble to better match the original buildings. The Fed had initially proposed using more glass in an effort to represent the Fed's transparency. The Fed amended the design to incorporate more marble.

The commissions don't typically consider costs.

The Fed is self-funded, meaning it operates without the budget oversight that comes from relying on congressional appropriations. Some Fed critics have said the building project reflects how the unique financial independence of the central bank enabled extravagant spending.

They question whether the Fed appropriately weighed the cost and complexity of its design choices, particularly given the politically sensitive nature of the central bank's spending.

"I find it hard to believe they need three full buildings," said Daniel Mathews, former commissioner of the General Services Administration's Public Buildings Service. "They spend their own funds, so you don't have that layer of accountability on their desires."

The Fed was generating substantial profits when it approved the renovation project in 2017. It was returning tens of billions of dollars in income to the Treasury because it earned more on securities it acquired after the 2008 financial crisis than it had to pay on bank deposits, known as reserves.

Construction work ramped up in 2022 at the same time that the Fed rapidly raised interest rates to combat inflation. Higher rates also sent up operating losses. Since September 2022, the Fed has been paying more in interest on reserves than it earns on its portfolio of securities. The Fed reported a loss of \$77.6 billion last year.

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