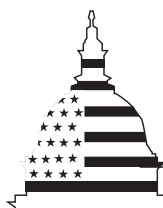


June 2001

UNITED NATIONS

Planning for  
Headquarters  
Renovation Is  
Reasonable; United  
States Needs to  
Decide Whether to  
Support Work



G A O

Accountability \* Integrity \* Reliability

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**Abstract**

The U.N. headquarters complex in New York City, built largely from 1949 to 1952, is a well-designed and well-constructed landmark that is now aging. The buildings, particularly much of the original infrastructure, have exceeded their economic life expectancy. They are energy inefficient and no longer conform to current safety, fire, and building codes or to U.N. technologic or security requirements. U.N. officials have discussed renovating the 50-year-old complex for about a decade. (See app. I for information on the U.N. headquarters and construction project planning.) In June 2000, the Secretary-General presented to the General Assembly a Capital Master Plan, which provides options for a multiyear effort to renovate the headquarters. The Secretary-Generals preferred option was estimated to take 6 years and cost about \$1 billion. In December 2000, the General Assembly approved \$8 million for the Secretary-General to develop design concepts and associated cost estimates for the renovation and ensure that all viable renovation options had been considered. Because the United States is the largest contributor to the U.N. system and the host country for U.N. headquarters, the Congress is concerned about the reasonableness of the planning for the proposed renovation and its potential cost and financing. To address these concerns, you asked that we (1) assess the reasonableness of the United Nations renovation planning efforts, including the initial cost estimate; (2) comment on the potential cost to the U.S. government, including financing options and issues; and (3) discuss the tentative time frames for key steps in the renovation process. Because the Department of State, through the U.S. Mission to the United Nations, is responsible for ensuring that U.S. interests at the United Nations are met, we also inquired into what role State had played thus far in the renovation.

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**Abbreviations**

IBRD	International Bank for Reconstruction and Development
RFP	Request for Proposal
UNDC	United Nations Development Corporation



United States General Accounting Office  
Washington, D.C. 20548

June 15, 2001

The Honorable Joseph Biden  
Chairman  
The Honorable Jesse Helms  
Ranking Minority Member  
Committee on Foreign Relations  
United States Senate

The U.N. headquarters complex in New York City, built largely from 1949 to 1952, is a well-designed and well-constructed landmark that is now aging. The buildings, particularly much of the original infrastructure, have exceeded their economic life expectancy. They are energy inefficient and no longer conform to current safety, fire, and building codes or to U.N. technologic or security requirements. U.N. officials have discussed renovating the 50-year-old complex for about a decade. (See app. I for information on the U.N. headquarters and construction project planning.) In June 2000, the Secretary-General presented to the General Assembly a Capital Master Plan, which provides options for a multiyear effort to renovate the headquarters. The Secretary-General's preferred option was estimated to take 6 years and cost about \$1 billion. In December 2000, the General Assembly approved \$8 million for the Secretary-General to develop design concepts and associated cost estimates for the renovation and ensure that all viable renovation options had been considered.

Because the United States is the largest contributor to the U.N. system and the host country for U.N. headquarters, the Congress is concerned about the reasonableness of the planning for the proposed renovation and its potential cost and financing. To address these concerns, you asked that we (1) assess the reasonableness of the United Nations' renovation planning efforts, including the initial cost estimate; (2) comment on the potential cost to the U.S. government, including financing options and issues; and (3) discuss the tentative time frames for key steps in the renovation process. Because the Department of State, through the U.S. Mission to the United Nations, is responsible for ensuring that U.S. interests at the United Nations are met, we also inquired into what role State had played thus far in the renovation.

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## Results in Brief

The planning efforts for the proposed renovation of U.N. headquarters in New York City have been reasonable and have conformed to industry best practices. U.N. officials have identified critical problems in the buildings

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that need to be remedied and developed options for correcting the deficiencies. They have also developed preliminary, but reasonable, cost estimates for them. It is too soon to determine the cost to the United States, because member states must still decide whether to support the work and if so decide on the scope of the renovation and the financing options. The key financing options being considered are cash payments by member states, interest-free loans provided by members, and a U.N. bond offering in the capital markets. Each of these options involves tradeoffs and will challenge member states to reach an agreement. Nonetheless, by the end of 2002, the U.N. officials plan to request that member states (1) decide on the scope of work for the renovation, (2) appropriate funds to complete the final design, and (3) reach a decision on financing arrangements. As the lead U.S. agency for foreign affairs, the Department of State has been listening to proposals about financing the renovation and following the planning efforts. However, according to State Department officials, a comprehensive U.S. position on support for the renovation has not yet been developed nor does the Department have a position on how the renovation should be paid for. Some member states and U.N. officials indicate that the U.S. position has to be decided soon because members will have to be prepared to make key decisions next year.

In this report, we are recommending that the Secretary of State, in consultation with the appropriate administration officials, take the needed steps to develop a comprehensive U.S. position on whether to support the U.N. renovation.

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## Project Planning Has Been Reasonable

The U.N. headquarters complex clearly needs to be renovated. For example, the Capital Master Plan notes that “users of the United Nations Headquarters site...have a lower chance of survival during a fire than they would at comparable modern buildings..” While still in its early stages, we believe that the renovation planning efforts to date, including the cost estimate, are reasonable. Our opinion is based on the following actions taken by U.N. officials, which are consistent with typical industry best practices for this phase of project development—the conceptual planning phase.<sup>1</sup>

*Defined the need for a renovation.* About a decade ago, U.N. officials identified the need for a major renovation to provide member states a 21<sup>st</sup> century headquarters. To define the technical needs, they competitively procured the services of a multidisciplinary team of consultants, who assessed the existing conditions of each infrastructure component. The assessments were based on visual inspections and selective probes of the buildings’ structure and their electrical, mechanical, plumbing, and other systems. The assessment reports formed the basis for the Capital Master Plan conclusion that current building conditions render the headquarters unacceptable for continued long-term use.

*Defined U.N. project expectations.* The Secretary-General defined the project expectation as follows: “The United Nations facility should be safe, free of hazardous materials, environmentally sound, fully accessible to all persons and cost-efficient to operate.” The Capital Master Plan presented a framework of options that could meet this expectation and preliminary cost estimates ranging from \$875 million to \$1.2 billion. The estimates were (1) developed using standard industry practices; (2) based on the condition assessments; and (3) included costs for labor and materials, project management, and contingencies—all adjusted for the New York City market and for inflation over the project duration. However, the estimates excluded some costs, such as (1) U.N. staff other than for project management; (2) furniture, fixtures, and equipment; or (3) additional

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<sup>1</sup>Ralph S. Spillinger, in conjunction with the Federal Facilities Council’s Standing Committee on Organizational Performance and Metrics, *Adding Value to the Facility Acquisition Process: Best Practices for Reviewing Facility Designs*, Federal Facilities Council Technical Report #139 (Washington, D.C.; National Academy Press, n.d.). The Council, a cooperative association of 21 federal agencies, identifies and advances technologies, processes, and facilities management practices that improve the performance of facilities over their life cycle.

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security measures. Based on standard estimating literature and our work looking at the planning efforts, it is our opinion that the preliminary cost estimate has a margin of error of 20 to 30 percent. The estimates will be refined after the scope of the renovation is decided and further design work is completed.

*Recognized the value of a project management plan to guide decisionmaking.* U.N. project officials acknowledged the value of a project management plan that could include (1) a statement of project goals and objectives; (2) options for management of the project; (3) project implementation schedules; (4) details about how the renovation would affect day-to-day U.N. operations; and (5) observations about how U.N. stakeholders, including member states, employees, the city of New York, and others, would be involved in the process. As part of conceptual planning, U.N. officials are developing a new project management plan that updates the Capital Master Plan.

*Recognized a need to augment management capability.* U.N. project staff recognize that while the Secretariat does have project management capability, it does not have the capability to manage a project as large and complex as the proposed renovation. While a decision regarding project management has not been reached, U.N. officials have identified options that could be implemented when funding is approved. These options range from directly hiring individuals with the requisite skills to contracting for such services. (See app. II for more detail about U.N. planning efforts, including the building assessments and the cost estimate.)

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## Financing Issues Will Be Explored Further

Since the renovation planning is at a very early stage, it is too soon to determine the potential cost to the U.S. government. The cost will depend on the design and scope of work selected and the decisions member states, New York City, and New York State make about how to finance and share in the cost of the renovation. The Capital Master Plan suggested that some voluntary and private contributions might be available but that the following three financing options are the most likely alternatives. A financial advisory group will be established to explore further these three and all other possible options.

*Cash payments by member states.* While this is the most straightforward option, it would require member states to pay for the entire cost of the renovation during the construction period. Moreover, members would have to agree on individual assessment rates for every member.

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Negotiations over the assessment rates have been contentious in recent years.

*Interest-free loans provided by members.*<sup>2</sup> Representatives from several member states said that their governments might consider providing an interest-free loan but the United States needs to take the lead in furthering such a proposal. According to Office of Management and Budget officials, the Congress would have to appropriate the U.S. share of an interest-free loan in full, and the funds would be obligated with outlays during the renovation period.

*Bond financing in the capital markets.* According to the United Nations' financial consultant, the United Nations could raise funds in the commercial capital markets and could expect to receive a credit rating between AA (very high grade) and A (upper medium grade) for a commercial bond offering. A representative from at least one member state said his government would be opposed to such a proposal because some member states have a higher credit rating and could borrow the funds at a lower cost. Also, according to the financial consultant, the bond might have to be secured by the United Nations' regular operating budget, which could restrict the use of the regular budget funds for day-to-day activities. (See app. III for more detail about the financing options and financial and policy implications for members.)

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<sup>2</sup>The United States provided the United Nations with an interest-free loan in 1948 to build the core U.N. headquarters buildings and was repaid from the regular U.N. budget over a 31-year period.

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Some member states believe that the United States, New York State, and New York City derive net economic benefits from the presence of the U.N. headquarters in New York. Therefore, they say that these three entities should pay a larger share of the renovation costs than the U.S. share of the regular U.N. budget (22 percent as of January 2001). Both New York City and State have made contributions to the United Nations since its inception and incur annual costs associated with the U.N.'s presence and the diplomatic community. In turn, New York City realizes economic benefits from being the host city to the United Nations, generating \$3.3 billion in economic activity as a result of the United Nations' presence, according to a 1994 study.<sup>3</sup> (See app. III for more detail on New York's contributions to the United Nations and benefits to New York City due to the United Nations' presence.)

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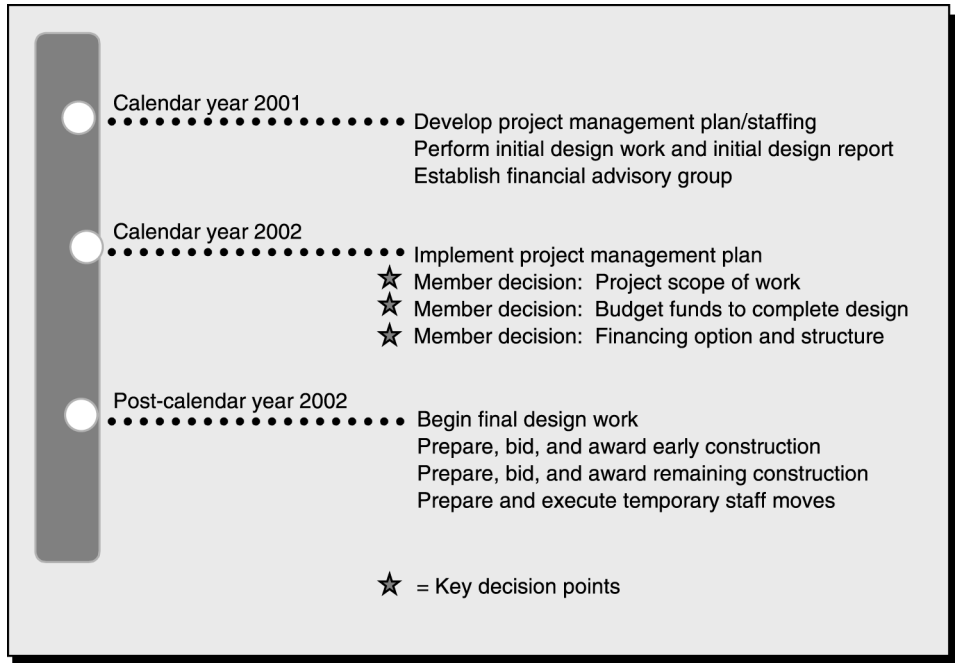
## Key Steps in the Renovation Planning Process

As of June 2000, the United Nations was finalizing the selection of an architect and engineering firm to develop concept designs and ensure that all viable renovation options had been considered. In the spring of 2002, the Secretary-General plans to present the results of the design effort to member states. At that point, member states would consider the renovation options, the initial design concepts, and revised estimates of project costs. By the end of 2002, the Secretary-General anticipates member states would make key decisions determining the future of the renovation, including deciding on (1) a project scope of work, (2) the appropriate funds for the final design (estimated to cost about \$37 million), and (3) the financing arrangements. (Fig. 1 depicts key steps in the process, app. IV describes key efforts for the renovation in 2001 and 2002, and app. I describes general phases the renovation will go through after 2002.)

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<sup>3</sup>*New York City and the United Nations: Celebrating a 50-Year Partnership* (New York: New York City Commission for the United Nations and Consular Corps, Sept. 1995). This study has not been updated since 1994. In addition, the study did not quantify the annual cost to the city due to the United Nations' presence.

**Figure 1: Key Steps in the Process for Renovating U.N. Headquarters**



Source: GAO analysis of information provided by U.N. officials.

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## Role of the Department of State in the Renovation

According to its mission statement, the Department of State is the lead U.S. foreign affairs agency and is responsible for developing and implementing the policies of the U.S. government within the United Nations. To date, State has primarily been in a listening mode with regard to U.N. renovation proposals, according to State and Office of Management and Budget officials. State has been following the renovation issues, according to the Assistant Secretary of State for International Organization Affairs; however, a comprehensive U.S. position on the U.N. renovation has not yet been developed. According to the Assistant Secretary, developing a comprehensive position would involve addressing questions, such as support for the renovation, what scope of work should be undertaken, and how much should the United States provide for the project. Moreover, no mechanism has yet been set up that could lead to the establishment of a team comprised of staff from State, and possibly other executive branch offices, with the necessary expertise in construction management and U.N. issues to ensure that U.S. interests are met in a project of this magnitude.<sup>4</sup> Representatives of other member states said that the United States, as the host country, must soon play a major role in the process if the renovation is to proceed and if decisions are to be made on a timely basis. New York City and New York State officials also said that the U.S. government needs to state whether it is committed to retaining U.N. headquarters in New York before New York officials or entities commit resources to the project. (See app. V for a discussion of State's role in the process and U.N. member states' and New York City's and New York State's expectations.)

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## Conclusions

The U.N. headquarters complex clearly needs to be renovated, and the Secretary-General will ask member states to make key decisions in 2002 about the future of the renovation. As host country to U.N. headquarters, the United States needs to play a major role in making these decisions if the renovation is to proceed. However, the administration and State have not yet developed a comprehensive U.S. position on the renovation. Assuming the United States decides to support the renovation, it needs considerable lead time to examine the issues, including what scope of renovation meets U.N. and U.S. needs in the 21<sup>st</sup> century, what share of the renovation costs would the United States be willing to provide, and what process is needed

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<sup>4</sup>Based on our work on construction projects, there are several U.S. government entities with the expertise to oversee construction management, such as the National Academy of Sciences and the General Services Administration.

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to ensure that the construction is cost-effective and timely. One option for examining these issues would be to establish a team comprised of experts on construction management and U.N. issues, using appropriate administration resources from State, the National Academy of Sciences, and the General Services Administration.

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## Recommendation for Executive Action

We recommend that the Secretary of State, in consultation with appropriate officials in the administration, take the steps necessary to develop a comprehensive U.S. position on matters pertaining to the renovation. Assuming the U.S. position is to support the renovation, the Secretary of State and appropriate administration officials should consider what mechanisms would be needed to obtain the necessary expertise in construction management, financing, and U.N. issues.

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## Agency Comments

We received written comments on this report from the United Nations and the Department of State. The United Nations and the Department of State have agreed with the information presented, and their comments are reprinted in appendixes VI and VII, respectively. In addition to their written comments, State and U.N. officials provided technical and clarifying comments, which we incorporated where appropriate.

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## Scope and Methodology

To assess the reasonableness of the United Nations' planning and project development efforts, we reviewed U.N. records, including the original site acquisition documents; a sample of original and modification-related drawings and reports; and each of the building condition (needs) assessment reports. We also went on a site tour of the buildings and viewed the infrastructure and areas that are proposed for renovation, including the basement and interior structures. We discussed various aspects of the project with U.N. Secretariat and project staff and contractors, including the process by which the Capital Master Plan was developed, considered, and approved; the preparation of the condition (needs) assessment reports, including the cost estimate; the sequence and schedule of future project activities, including further design and construction efforts; and the United Nations' procurement process. To assess the reasonableness of the cost estimates, we looked at the assumptions supporting the preliminary cost estimates, as well as the methods used in constructing certain cost estimates. Specifically, we discussed with the estimator the basis for costs associated with the types of equipment and materials, the unit quantities, the unit prices, and other items of cost included in the estimate, as well as costs assigned to contingency, project management, and temporary space to house U.N. staff during renovation. We compared the United Nations' project planning efforts with best industry practices, as identified by the Federal Facilities Council.<sup>5</sup>

To comment on the potential cost to the U.S. government and other financial and policy issues related to the implementation of the Capital Master Plan, we analyzed the proposed financing options and funding sources. In addition, we interviewed officials to obtain their views on the financing options and the potential policy issues that may confront member states. Specifically, we spoke with the J.P. Morgan financial consultant regarding the financing concept paper, which presents various financing options, including financing the renovation with a bond offering in the capital markets. We also discussed the financial aspects of the project with officials of New York City and State; the U.N. Development Corporation, which helps finance and construct facilities for the United Nations and the diplomatic community; and UNDC's bond underwriter, Goldman, Sachs & Company. To gain an understanding of the proposed funding sources, we

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<sup>5</sup>*Adding Value to the Facility Acquisition Process: Best Practices for Reviewing Facility Designs.*

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reviewed U.N. historical documents, recent audited financial reports, and budget documents and spoke with knowledgeable staff in various U.N. offices. In addition, to address the policy implications of the financing options, we reviewed the United Nations' Charter, Financial Regulations and Rules, as well as applicable U.S. legislation pertaining to the United Nations. We also spoke with several representatives of member states who would participate in U.N. financing decisions.

To discuss the tentative time frames for key steps in the renovation process, we reviewed U.N. reports, such as the Capital Master Plan, and focused on the essential steps in the project planning and development process. We subsequently spoke with U.N. officials to determine their current plans and time frames for developing and implementing a project management plan, preparing the initial design and design report, and establishing a financial advisory group to explore further the financing issues. We also met with officials of the State Department, the U.S. Mission to the United Nations, and the Office of Management and Budget to discuss administration efforts in monitoring the renovation planning. We similarly discussed these issues with several member state representatives.

We conducted our review between January and May, 2001, in accordance with generally accepted government auditing standards.

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We are providing copies of this report to the Secretary of State; the Acting U.S. Ambassador to the U.S. Mission to the United Nations; the Director, U.S. Office of Management and Budget; the U.N. Secretary-General; and interested congressional committees. We will also make copies available to others on request.

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Please contact Mr. Johnson at (202) 512-3540 or Mr. Ungar at (202) 512-8387 if you have any questions concerning this report. Other GAO contacts and staff acknowledgments are listed in appendix VIII.



Harold J. Johnson  
Director, International Affairs and Trade



Bernard L. Ungar  
Director, Physical Infrastructure Issues

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# Background

## United Nations Headquarters Complex

Figure 2: United Nations Headquarters Complex



Source: United Nations.

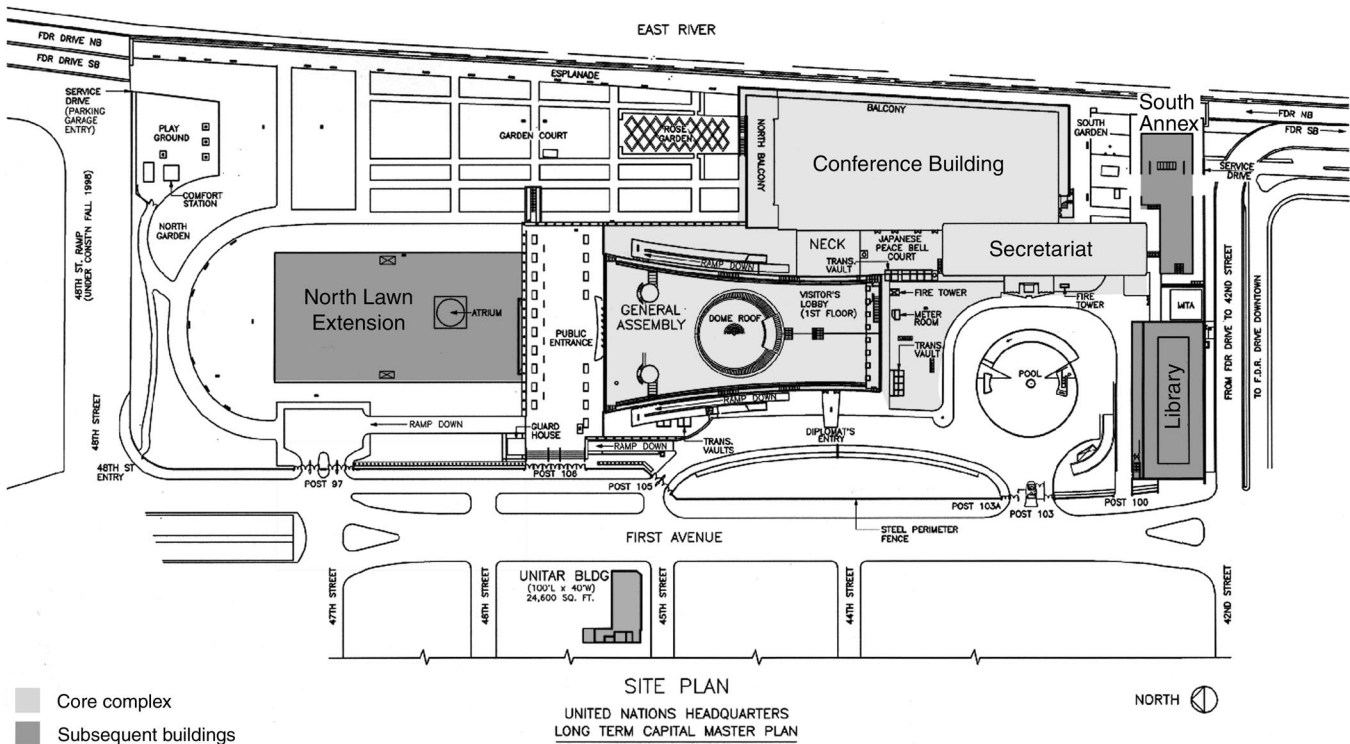
The U.N. headquarters is a New York City landmark built primarily between 1949 and 1952 (see fig. 2). Located on the eastern shore of Manhattan Island, the headquarters district is under the control and authority of the United Nations. It consists of seven historically and architecturally significant structures<sup>1</sup>. In December 1946, John D. Rockefeller, Jr., offered the United Nations \$8.5 million (equivalent to \$75 million in year 2000 U.S.

<sup>1</sup>According to the consulting engineer who performed the condition assessment, these buildings would have been designated historical landmarks many years ago if they were within the jurisdiction of any U.S. landmark regulatory agency.

**Appendix I  
Background**

dollars) to purchase the site. In 1948, the United States provided an interest-free loan of \$65 million (equivalent to \$465 million in year 2000 U.S. dollars) for the construction and furnishing of the complex. Both the city and state of New York contributed major improvements and alterations to the surrounding streets and infrastructure to create better traffic and pedestrian access.

**Figure 3: Site Plan of the U.N. Headquarters Complex**



Buildings and Grounds Included in Renovation

Source: United Nations.

Figure 3 illustrates the site plan for the headquarters complex, which was originally designed to accommodate the needs of up to 70 member states but currently supports the needs of 189 member states. At the U.N. headquarters location, the buildings support four major constituencies:

**Appendix I  
Background**

- member states' delegations that annually send more than 5,000 persons to New York for the annual sessions of the General Assembly;
- Secretariat or U.N. staff offices, which number about 4,700 persons;
- visitors and tourists, which number about 700,000 persons per year; and
- journalists, of whom about 3,600 are permanently accredited while more than 10,000 may be present during major meetings.

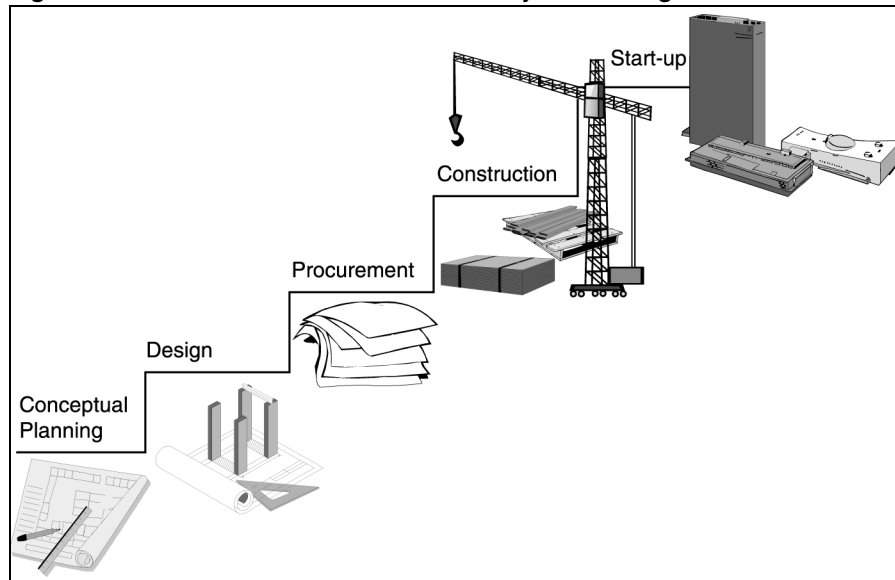
Table 1 outlines the acquisition and expansion of the U.N. headquarters buildings and grounds to accommodate these groups.

**Table 1: U.N. Headquarters Buildings and Grounds: Date of Acquisition, Cost, and Source of Funding**

<b>Facility components</b>	<b>Date of construction or acquisition</b>	<b>Cost of construction or acquisition</b>	<b>Source of funding</b>
<b>Site</b>	1946	\$8.5 million	John D. Rockefeller, Jr.
<b>Core complex</b>			
General Assembly Secretariat building Conference building Basement support area	Construction started in January 1949 and was completed in 1952.	Total of \$65 million for these four structures.	Interest-free loan from the United States, which was paid off in 1982. Loan was repaid over 31 years from the U.N. regular budget.
<b>Subsequent buildings</b>			
Dag Hammarskjöld Library	Dedicated November 1961	\$6.7 million	Ford Foundation gift
North lawn extension	Construction completed 1981	\$25.6 million	U.N. regular budget
South Annex building	Construction completed 1982	\$8.7 million	U.N. regular budget
Unitar building	Land purchased in 1989	\$4.45 million	U.N. regular budget
<b>Major expansions</b>			
Conference building	1964	\$3 million	U.N. regular budget
General Assembly	1980	\$15 million	U.N. regular budget

Source: United Nations.

Figure 4: The Five Phases of Renovation Project Planning



Source: *Adding Value to the Facility Acquisition Process: Best Practices for Reviewing Facility Designs* and GAO.

To assess the planning process the United Nations has begun, it is important to understand the general phases that any renovation project should go through. In our opinion, typical best practice in the design and construction industry is defined by the five phases of project planning. (See fig. 4.)

1. **Conceptual Planning**—The owner defines its needs and expectations, which leads to the development of the scope of work. During this phase, various feasibility studies are typically conducted to define the scope of work based on owner expectations for performance, quality, cost, and schedule. Further, the need for temporary space and the options for meeting this need are identified. Typically, several alternative design solutions are identified, and finally one approach is selected.
2. **Design**—This phase starts once the statement of work and preferred design approach have been developed. From this initial design work, the design matures into final construction documents comprising the drawings and specifications from which bids can be solicited. Also during this period, the need for temporary space becomes more

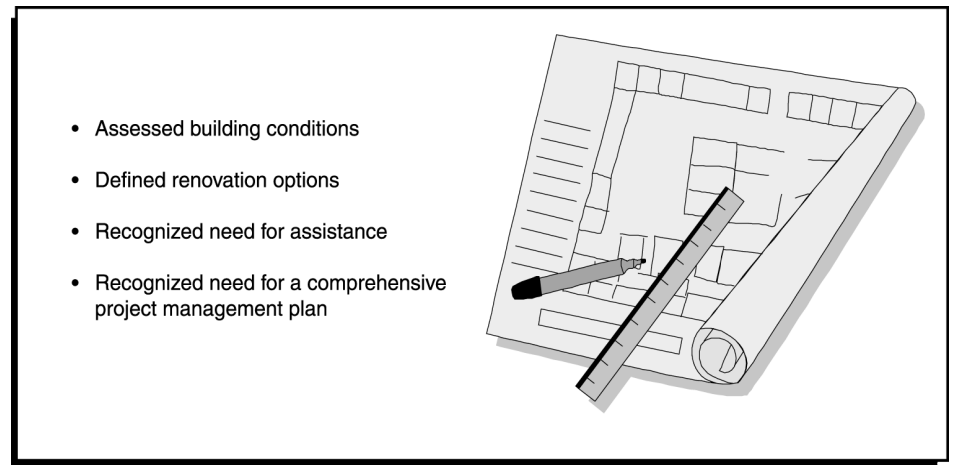
definitive, thereby permitting the development of solicitation documents. Estimated cost and schedule issues receive increasingly intense oversight as this phase proceeds.

3. Procurement—This phase refers to owner procurement of long lead-time equipment, such as unique or large electrical or mechanical equipment.
4. Construction—The services of a competitively procured construction contractor and specialty contractors and consultants are employed to execute the design. The biggest challenge of this phase is the management of changes resulting from the owner, design problems, or unknown conditions in the site. This phase is considered complete when the owner accepts occupancy of the building; however, work may continue for some time to identify and correct deficiencies in the construction work.
5. Start-up—This phase is also referred to as “commissioning.” It begins with occupancy of the building and entails the testing of individual and systems components to measure and compare their performance against the original design criteria.

# U.N. Planning Process

## U.N. Conceptual Planning Process

Figure 5: U.N. Conceptual Planning Process



Source: GAO analysis of U.N. data.

To date, planning for the U.N. renovation project has taken place within the conceptual planning phase. We believe that the conceptual planning thus far has been reasonable and that U.N. project staff has applied typical best practices. Specifically, the United Nations has identified and documented the need for the renovation, investigated infrastructure conditions, and is reviewing whether the Capital Master Plan identified all alternative design solutions. U.N. officials also recognize that they do not have sufficient staff with the skills necessary to manage a renovation of this magnitude, and they acknowledge the value of developing a comprehensive project management plan. (See fig. 5.)

In April 1998, the United Nations competitively contracted for consultant services to assess the condition of the headquarters buildings and grounds. A team of architects, engineers, and other consultants assessed existing infrastructure conditions in 1998 and 1999 and prepared condition assessment reports for each building as well as the site. The initial reports were provided to U.N. officials between the fall of 1999 and the spring of 2000 with the final reports provided to the U.N. Secretariat in October 2000. The reports include detailed assessments of each building, including structural conditions and electrical, mechanical, and plumbing systems. The reports also detailed the changes needed to voluntarily comply with New York City and associated building codes and handicapped, environmental, and industry standards. For example, the consultants recommended that, to comply with codes, sprinklers be installed in the

conference building where no sprinklers exist in the first basement through the fourth floor.

In June 2000, based on the initial condition assessment reports, the Secretary-General prepared the Capital Master Plan. The plan proposed a renovation to allow headquarters to carry out operations in the 21<sup>st</sup> century and discussed a framework of options for the renovation (these options are discussed later in this app.). The plan outlined a potential scope of renovation that, among other work, could include (1) installation of a full sprinkler system and a complete fire alarm system; (2) replacement of the heating, ventilating, and air conditioning systems; (3) upgrading of electrical wiring and panels, some of which are so outdated that replacement panels are no longer manufactured; (4) upgrading technology infrastructure to support digital transmissions and data handling; (5) replacement of lighting and ceilings and removal of asbestos; (6) consolidation and modernization of data-distribution systems; and (7) installation of a complete, facilitywide, automatic building management system.

In late 2000, when funding was approved for initial design work, the General Assembly instructed the Secretary-General to confirm that all renovation options had been identified and considered, not just those identified in the Capital Master Plan. In March 2001, the United Nations solicited proposals for the services of an architect/engineer for “the preparation of a comprehensive design plan and cost analysis, including all viable alternatives.”<sup>1</sup> The work is scheduled for completion in late 2001.

U.N. officials have also recognized that within their existing project management capability, they do not have sufficient staff with the skills and experience necessary to manage a renovation of this magnitude. We discussed with U.N. project officials whether the project would require a team consisting of U.N. staff and externally recruited staff that could include a full-time project manager and staff with experience in major renovation projects to manage the day-to-day project functions. Further, they said that they do not have either the background or the time to devote to this project and that they recognize the United Nations will have to acquire additional experienced staff resources. According to the U.N.

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<sup>1</sup>The solicitation noted that additional future services might include design development and construction documents, construction bid support, and construction administration and related general services.

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officials, they were currently considering when staff should be brought on board. However, given the current limited funding, such staff could only be short term. Also, they are considering whether staff could be found within existing U.N. architect/engineer staff. However, they would likely have to complete a job description for the project manager and advertise the position externally to hire someone with the skills and experience needed to undertake the renovation. Additionally, as an alternative to hiring staff directly, U.N. officials are considering contracting for a construction manager and services.

The United Nations is in full agreement on the importance, purpose, and content of the project management plan and agrees that this will be developed as part of the conceptual planning phase. It agreed that such a plan should be a living document that would provide design options and solutions and communicate to all stakeholders the approach to managing the project. U.N. officials acknowledged that such a plan should identify a disciplined decisionmaking process and include (1) a statement of project goals and objectives; (2) the management approach and team; (3) details about how the renovation would affect day-to-day U.N. operations; (4) observations about how U.N. stakeholders, including member states, employees, the city of New York, and others would be involved in the process; and (5) a description of key management tools to be employed, such as budget, schedule, and cost control measures. The project staff is developing a new project management plan that updates the Capital Master Plan.

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## U.N. Building Condition Assessment

In the early 1990s, U.N. officials recognized that despite the normal maintenance program, the buildings and other facilities continued to deteriorate due to age and extended use. Most of the building systems had passed their economic life expectancy. For example, the plumbing in the General Assembly building was installed in 1952—49 years ago—and the typical life expectancy for chilled and hot water systems is 25 to 30 years. The electrical systems in the Secretariat building were mostly installed in 1949—over 50 years ago; the life expectancy for electrical systems is 15 to 25 years. The Capital Master Plan states that “The current condition of the Headquarters complex renders it unacceptable for continued use over the long term.” Further, the plan states that U.N. structures “no longer conform to current safety, fire and building codes.” As such, “users of the United Nations Headquarters site, such as delegates, staff members and visitors, have a lower chance of survival during a fire, than they would at comparable modern buildings in New York City or other major cities in the

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world.” The following photographs present examples of the types of deficiencies identified in the assessment of the U.N. buildings.

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**Figure 6: Stone Displacement Due to Effects of Age**

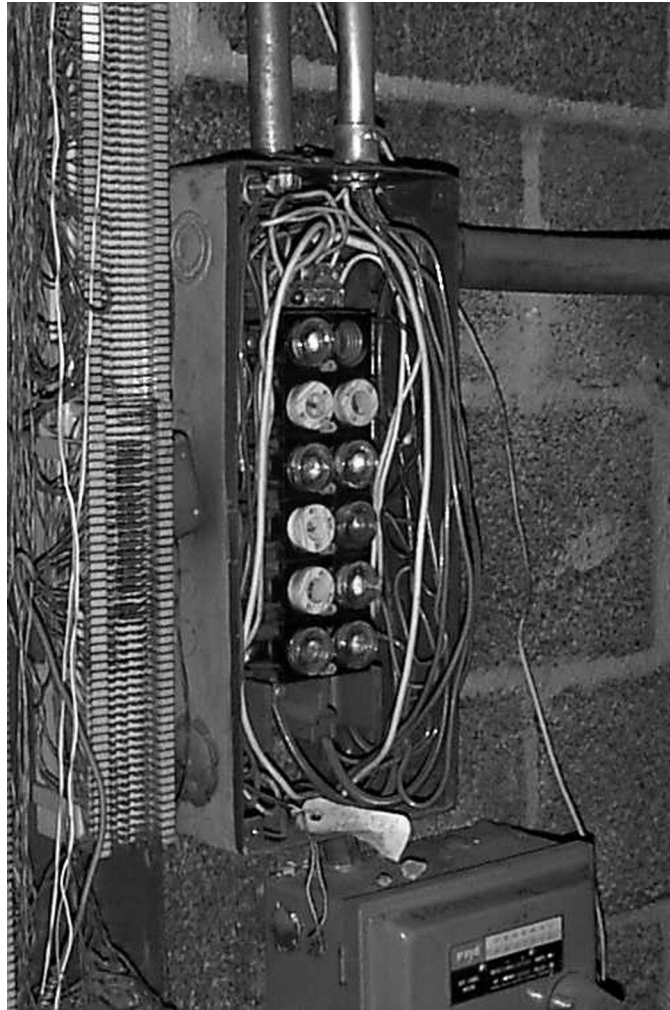


Source: United Nations.

Figure 6 shows a northeast cornerstone alignment problem, a potential safety hazard, on the north facade of the library. The consultant report noted that the facade exhibits signs of water penetration, with a possible indication of serious deterioration of the anchorage system due to uncontrolled water infiltration. The report recommended that high priority be given to the marble on the east facade, since some of the stones show signs of failing anchorage as exhibited in the shifting of some stones. Further, the report said that a program of stone removal should commence and, that if the anchorage is deteriorated, it be replaced with stainless steel.

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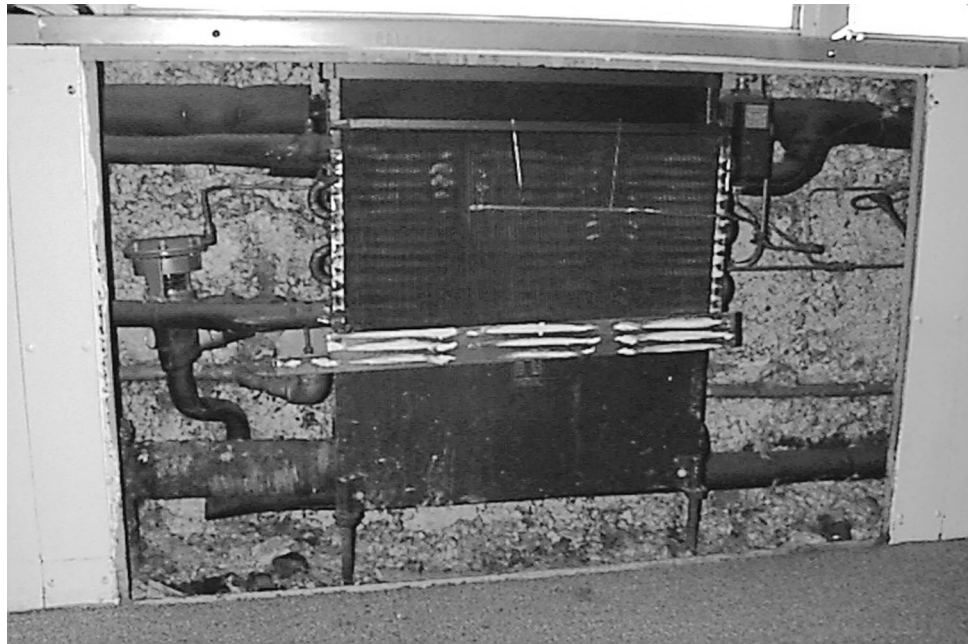
**Figure 7: Obsolete Electrical System**



Source: United Nations.

The consultant report noted that a large part of the electrical system in the basement consists of equipment that was originally installed in 1949, as illustrated in the type of fuses shown in figure 7. In this regard, the report noted that the vast majority of the electrical distribution system should be replaced, since it is no longer manufactured or is in a state of disrepair.

**Figure 8: Insulation Contains Asbestos**



Source: United Nations.

Figure 8 shows asbestos that was used on the interior surface of the walls below the windows in the U.N. Secretariat building. The original specifications, as cited in the consultant's report, required that a sprayed-on asbestos fiber coating be applied over an asphalt primer coat to provide insulation between the induction units and the outer facade. The report noted that this material is a health hazard to both maintenance staff and the building's occupants.

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**Figure 9: Restricted Handicapped Access**



Source: United Nations.

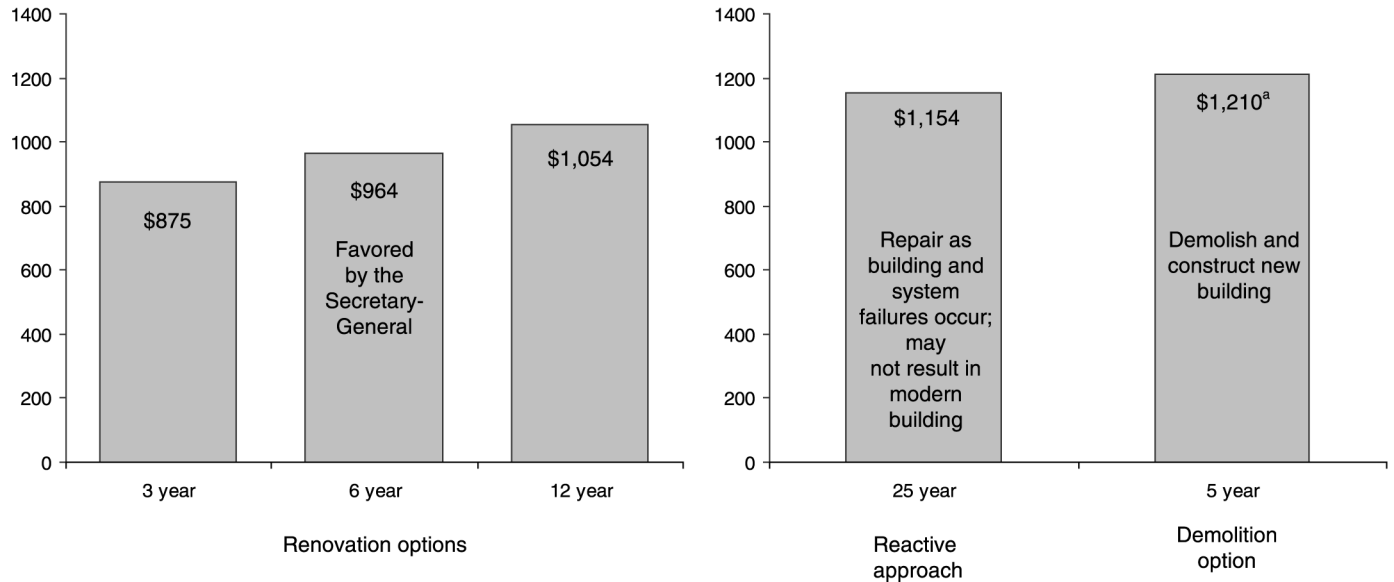
Figure 9 shows a photograph of a restroom in the Secretariat building that is inaccessible to the handicapped. This situation is typical of restrooms in the Secretariat building. The existing U.N. buildings and site, as originally designed in the late 1940s, made no specific accommodations for handicapped access because there were no code or legal requirements at that time. The report noted that despite the United Nations' efforts to correct deficiencies, additional accessibility compliance work is still needed.

## The United Nations' Capital Master Plan Renovation Options

The Capital Master Plan identified three renovation possibilities—3-year, 6-year, or 12-year plans—along with a reactive approach and demolition option. (Fig. 10 illustrates the cost estimates for these options.)

**Figure 10: The United Nations' Capital Master Plan Options and Their Cost Estimates**

Estimated total project cost (nominal dollars in millions)



<sup>a</sup>Amount does not include the undetermined cost of convening all meetings away from the U.N. headquarters.

Source: United Nations.

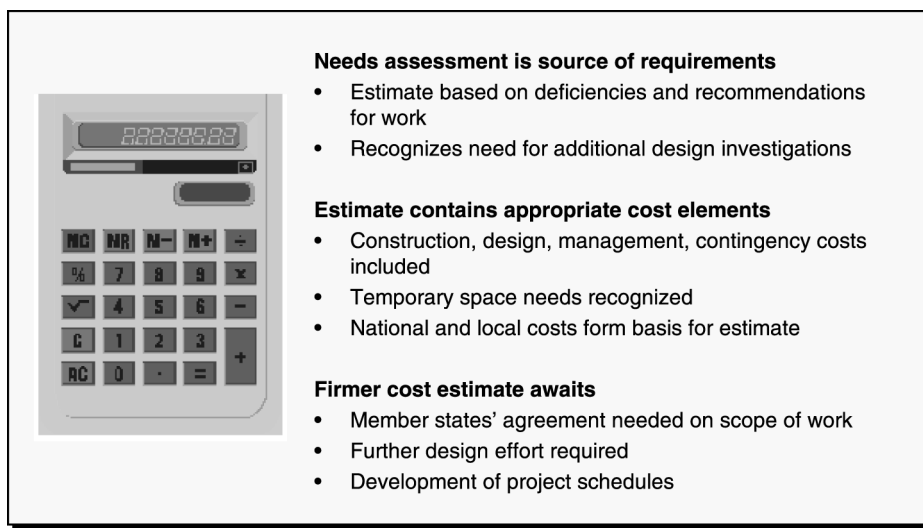
While the Secretary-General stated a preference for the 6-year plan, each option has advantages and disadvantages in terms of the costs and impact on operations of the headquarters. The planning decision considerations in the three options were as follows: minimize the total time spent in construction, control disruption and relocation, and cost less than other approaches. The Capital Master Plan noted that while the 3-year option would be the least costly, at an estimated \$875 million, it would also be the most disruptive, with current planning envisioning about 50 percent of the headquarters facility and staff affected by construction at the same time. In contrast, while the 12-year option would be more expensive, at an

estimated \$1,054 million, it would be the least disruptive, with current planning envisioning about 10 percent of the headquarters facility and staff affected by construction at the same time. In considering the 6-year option, the Secretary-General stated his opinion that it was the most practical and desirable approach, considering the estimated cost of \$964 million, and that current planning envisions 33 percent of the headquarters facility and staff would be affected by construction at the same time.

The Capital Master Plan also discussed two other options: (1) a reactive approach of continuing to maintain the buildings and facilities as needed and (2) a demolition and rebuild approach, which is an approach that may not be practical since the structures are landmarks. The report noted that there are serious disadvantages to the reactive approach. Foremost is that after \$1,154 million in costs are incurred over 25 years, the organization will still have the same deficient buildings and facilities because the facilities would not be modernized or improved in any meaningful way. Further, the United Nations' energy costs would continue to rise because the major alterations required to reduce energy consumption would occur incrementally. Finally, many of the hazardous conditions would continue to exist despite the costs incurred. The Capital Master Plan report estimated the cost of the demolition option at \$992 million. However, additional costs would be incurred for (1) relocating the entire Secretariat staff for a period of up to 5 years, estimated at \$218 million; and (2) convening all meetings away from U.N. headquarters, at a substantial additional cost that has not yet been determined.

## Development of Preliminary Cost Estimate

Figure 11: Development of Preliminary Cost Estimate



Source: GAO analysis of United Nations' data.

The cost estimate for the renovation was reasonable and was based on standard industry practices (see fig. 11). The cost estimator defined the renovation scope of work based on the recommendations in the condition assessments. The estimator noted that the \$964 million estimate was preliminary because design work had not yet been completed. Nonetheless, the estimate covered each building and, within each building, included the costs of replacing or upgrading the structure and the primary mechanical, electrical, and plumbing systems. The estimator used reasonable allowances to estimate the cost of some of the work and, where he could be more precise, used industry average costs for replacing or upgrading a specific component, such as air handlers. The estimator noted that while the estimate covered the primary systems in each building, additional and generally more invasive investigation would be needed during the design phase. Further, the cost estimate would not be refined until member states agreed on a scope of work for the renovation and the formal project design provided more definitive information.

The estimate included the labor and material costs associated with the project and also included types of costs that, in our opinion, are necessary for a reasonable estimate. These are costs associated with (1) professional services such as architectural and engineering, (2) project management, (3) contingencies for unforeseen events during both design and construction,

(4) indirect costs for such items as project field offices and insurance, and (5) escalation to account for inflation over the duration of the project. The preliminary estimate contained all of these types of costs; for example, inflation was projected at 3.5 percent per annum to the midpoint of construction. We did note, however, that some costs, such as U.N. staff costs over and above those required for project management, and the costs for office furniture, fixtures, and equipment, were excluded from the estimate. Further, the preliminary estimate did include security work and associated estimated costs that were developed by a consultant working with U.N. security. The proposed security measures will be revalidated during the conceptual design work.

The estimator used a national database to generate the costs for material, labor, and other services and adjusted these costs using a proprietary New York cost database. The estimator's staff stated that they applied their judgment in adjusting the estimate for the affect of such factors as working conditions in the occupied buildings, access to the job site, the lack of mobilization space for contractors, and security requirements of the job site. Overall, the estimate reflects costs that were based on local and national data tempered by the professional judgment and experience of the estimating staff.

In our opinion, a cost estimate at the conceptual stage of the project is an order of magnitude estimate and therefore is subject to a margin of error above and beyond the contingencies in the estimate. While some estimating sources indicate that a range of from 30 to 40 percent would be typical at this stage of project development, we discussed with the estimating staff what would constitute a reasonable margin of error given the building condition assessments and other work already completed. From these discussions and the level of detailed information about the infrastructure needs, it is our judgment that the initial cost estimate has a margin of error of 20 percent to 30 percent.

# Financing Options for U.N. Renovation

Three key financing options for the U.N. renovation were proposed in the Capital Master Plan as follows: cash payments by member states, interest-free loans by member states, and a commercial bond offering. Table 2 summarizes these options and the associated financial and policy implications.

**Table 2: Financing Options and Financial and Policy Implications for U.N. Renovation**

Financing option <sup>a</sup>	Financing assumptions	Financial implications	Policy implications
Cash payment by member states	<ul style="list-style-type: none"> <li>Renovation is fully financed with cash payment, which is based on special assessment</li> <li>Member states could be assessed once or annually over the renovation period</li> </ul>	<ul style="list-style-type: none"> <li>Special assessment required</li> <li>Opportunity cost<sup>b</sup> of onetime payment versus payment over renovation period</li> <li>Onetime payment could accrue interest until all payments are made to contractors, thereby reducing the total assessment</li> <li>Payment over renovation period would lessen the annual financial burden on members</li> </ul>	<p>General Assembly needs to agree on</p> <ul style="list-style-type: none"> <li>Assessment scale</li> <li>Duration of assessment (if not lump sum)</li> </ul> <p>U.S. policy is that funds should not be disbursed in advance of need.</p>
Interest-free loans from member states	<ul style="list-style-type: none"> <li>Renovation is fully financed with interest-free loans</li> <li>Member states are repaid with regular/special assessment</li> <li>Repayment of loan over a 25-year period</li> </ul>	<ul style="list-style-type: none"> <li>Special assessment may be required</li> <li>Opportunity cost of onetime loan payment versus payment over the renovation period</li> <li>Onetime payment could accrue interest until all payments are made to contractors, thereby reducing total assessment</li> <li>Repayment over the life of the loan would lessen the annual burden on member states</li> </ul>	<p>General Assembly approval and agreement between Secretary-General and member states needed on</p> <ul style="list-style-type: none"> <li>Loan payment and repayment terms</li> <li>Assessment scale and duration</li> </ul> <p>U.S. policy is that funds should not be disbursed in advance of need.</p>
Commercial bond offering	<ul style="list-style-type: none"> <li>Renovation is fully financed with taxable corporate bond obligation of the United Nations</li> <li>Debt service is assumed to be secured with regular budget and special assessments</li> <li>Annual debt service payment over a 25-year period</li> </ul>	<ul style="list-style-type: none"> <li>Special assessment required</li> <li>Borrowing costs</li> <li>No onetime or relatively large payments over the renovation period by member states</li> <li>Bond proceeds accrue interest in construction fund until all payments are made to contractors</li> <li>Debt service payment over life of bonds</li> </ul>	<p>General Assembly/Member states need to agree on</p> <ul style="list-style-type: none"> <li>Bond offering; bond trustee agreements</li> <li>Assessment scale and duration</li> </ul> <p>Current U.S. legislation could prevent the U.S. government from paying interest rate costs and arrears</p>

<sup>a</sup>The Capital Master Plan also proposed that the renovation cost could be financed with a combination of interest-free loans and commercial bonds.

<sup>b</sup>Opportunity cost is the measurable advantage forgone as a result of the rejection of alternative uses of resources.

Sources: *Capital Master Plan, Report of the Secretary General* (New York: United Nations, June 2000), J.P. Morgan's *Long Term Capital Master Plan Concept Paper* (New York: Aug. 2000), and GAO's analysis of these sources.

## Cash Payment by Member States

Figure 12: Financing Option: Cash Payments



### Cash Payments by member states:

- Cash payments not previously used to finance capital projects
- Challenges:
  - Establishing equitable assessments
  - Paying high up-front costs

Source: GAO analysis of U.N. information.

The Capital Master Plan proposed that onetime or annual cash assessment be provided by member states during the renovation period. While the U.N. Secretariat views this option as the most straightforward method for meeting the cost of the renovation, it has never been used to finance construction or renovation projects and is considered challenging to implement. The cash payment would be based on a special assessment scale, and Secretariat officials believe it may be difficult for members to agree on a scale within the time frame to start renovation work proposed by the Capital Master Plan.<sup>1</sup> (See fig. 12.)

Due to the anticipated high cost of the project, member states would be required to provide large cash payments up-front to pay contractors. The size of the annual financial outlay required from member states would depend on the total costs, the renovation period that members choose, and contractors' agreement with the United Nations. For example, based on expected construction progress payments and the Secretary-General's preferred choice—an estimated renovation cost of about \$964 million with payments spread out over 6 years—the annual cash outlay, excluding prerenovation cost, is estimated at \$174 million in the first 3 years, diminishing to \$101 million in the 6th year.

<sup>1</sup>Special assessments are typically levied for peacekeeping and international criminal tribunal activities. The United States is currently assessed at 30.5 percent for peacekeeping and 25 percent for one-half of the criminal tribunal budget and about 30.5 percent for the other half.

If member states were to make a onetime payment, which the U.N. Secretariat prefers, there would be an opportunity cost (such as forgone interest earnings) as compared with paying installments over the renovation period.<sup>2</sup> However, the U.N. Secretariat said that a onetime payment would accrue interest in a bank account until all payments were made to contractors, thereby reducing the cost to members. The Secretariat also prefers a onetime payment, as opposed to annual or biannual payments, because it would then be assured that the renovation would not be curtailed due to funding problems. With regard to the U.S. government, according to the Office of Management and Budget, U.S. executive branch policy states that funds should not be disbursed in advance of the need for such funds. In addition, the funds should not be disbursed so that the recipient can invest the proceeds.

## Interest-free Loans and Voluntary Contributions

Figure 13: Financing Options: Interest-Free Loans and Voluntary Contributions



### Interest-free loans/voluntary contributions

- Past construction financed with interest-free loans and contributions
- Interest-free loan is preferred choice of several member states
- Voluntary contributions are anticipated; no commitments made

Source: GAO analysis of U.N. information.

Another option that the Capital Master Plan proposed is to have member states finance the renovation by providing interest-free loans covering the full cost of the renovation. The loans would be repaid over a 25-year period. In 1948, the U.S. government provided \$65 million (about \$465 million in year 2000 U.S. dollars) in interest-free loans to construct the core buildings. Currently, interest-free loans are the preferred choice of several member states. As with the cash payment option, member states would be required to pay a large amount of money up-front to contractors. (See fig. 13.)

If member states were to provide interest-free loans, which would be repaid with a special assessment, this option essentially would be the same

<sup>2</sup>Opportunity cost is the measurable advantage forgone as a result of the rejection of alternative uses of resources.

as providing a grant or a cash payment.<sup>3</sup> According to U.N. officials, some member states have indicated that they would provide interest-free loans if the United States were willing to take the lead in advancing this proposal. One suggestion is that key member states, including the United States, could provide the loan and then would be exempt from paying their share of any special assessment. The special assessment levied on other member states would be used to repay their share to the member states that paid the loan for all members up-front and could be repaid over a 25-year period.<sup>4</sup> Based on the Secretary-General's preferred option of \$964 million and a renovation period of 6 years, debt service for the repayment of interest-free loans would be about \$39 million per year over the 25-year period. However, whether the loan is provided up-front by key member states or by the entire U.N. body of 189 member states, member states must agree on the share of the total cost to be paid by each country and the repayment terms.<sup>5</sup>

While the U.N. Secretariat does not anticipate that the project could be fully financed with voluntary contributions, U.N. officials have indicated that certain undisclosed sources have already expressed intentions to provide contributions. U.N. officials also hope to receive contributions from New York City and State.<sup>6</sup> However, according to these officials, no one will commit to either interest-free loans or voluntary contributions until the United States explicitly states that it is in favor of the renovation project. Some member states have suggested that because of the international scope of the organization, the United Nations should begin a global fund-raising campaign now.

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<sup>3</sup>An alternative source of funding is the regular budget assessment, which has been the traditional source for funding U.N. building construction and renovation projects. From 1973 to December 2000, the U.S. rate of regular budget assessment was 25 percent. The United States is currently assessed at 22 percent for the regular budget.

<sup>4</sup>Another option is that the countries that provide the loan could withhold from their annual regular budget assessment the portion that is to be paid by those countries that did not provide a loan up-front but would be providing their share over the 25-year period to the United Nations. However, the use of this option would not allow a complete separation of the regular budget account from an off-budget account, which is preferred for the renovation by U.N. officials and several member states.

<sup>5</sup>With respect to the U.S. government, according to the U.S. Office of Management and Budget, the full U.S. share of the interest-free loan would be appropriated and obligated up-front with outlays over the renovation period.

<sup>6</sup>A discussion of the contributions made by New York and benefits received as host to the United Nations is presented later in this section.

## Commercial Bond Offering

Figure 14: Financing Option: Commercial Bonds



### Commercial bonds

- Proposed bonds cause concerns for some members
  - The potential credit rating
  - Potential implications for the regular budget
- Financial mechanism needed – bond trustee
- Legislative restrictions

Source: GAO analysis of United Nations' financial consultant information.

The United Nations could also finance its building renovations with a long-term bond offering in the capital markets at market interest rates. A bond offering would allow the Secretariat to secure all of the funds needed for the project before the renovation begins. In addition, although borrowing at market rates presents significant interest costs, it would enable member states to pay for the cost of the renovation over the life of the financing rather than through a large outlay of funding upfront, as would be required if it were financed with cash payments or interest-free loans. However, the United Nations has never borrowed from the commercial capital markets. The United Nations engaged a financial consultant to examine the viability of commercial borrowing, and the consultant suggested that a U.N. bond offering, issued as a taxable corporate obligation of the United Nations, would be possible. There are several concerns surrounding the bond offering: (1) the potential credit rating, (2) the potential use of the U.N. regular budget to secure debt service, and (3) existing legislative restrictions. (See fig. 14.)

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## Credit Ratings

The financial consultant advised that the United Nations could expect to receive a rating from credit rating agencies in a range between AA (very high-grade, high-quality) and A (upper medium grade). However, a key member state representative suggested that his country would not support a bond offering with lower than a AAA rating, which is the highest rating given to a borrower on long-term debts.<sup>7</sup> The United Nations' potential cost of borrowing would be influenced by the credit rating. The United Nations' cost of borrowing could be substantially higher than that of some of its members, including the United States, but could be lower than that of its other member states. The financial consultant stated that the United Nations could enhance its credit rating by limiting the number of member states whose assessment payments were used to satisfy the debt service to the high credit rating of some members, thus lowering the overall cost of borrowing. In addition, the financial consultant suggested that a AAA rating could be achieved if the United Nations were to purchase additional bond insurance. The benefits to be achieved from acquiring a AAA rating should outweigh the cost of paying the additional bond insurance premium.

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## Potential Implications for the Regular Budget

According to the financial consultant, some mechanisms that would be required to obtain the expected credit rating and secure the bonds were (1) linking the regular budget assessment to the debt service payments and (2) establishing a bond trustee and a debt service (lockbox) account.

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<sup>7</sup>According to the financial consultant, the United Nations' goal would be to convince the credit rating agencies to treat the borrowing as "quasi-sovereign" for credit rating purposes. The obligations of certain organizations, such as the World Bank, are defined as quasi-sovereign by the credit rating agencies. Like the World Bank, the United Nations' budget assessment payments are obligations of member states, and, according to the financial consultant, the United Nations' obligations would probably be defined as quasi-sovereign.

Another concern with the proposed bond offering is that certain member states do not pay their regular budget assessments until the second half of the calendar year, and the regular budget assessment would be linked or be used to secure the debt service payments.<sup>8</sup> According to the financial consultant, based on recent trends, 50 percent of the total regular budget assessment are collected in the first and second quarters.<sup>9</sup> The third and fourth quarter collections are less predictable and include payments from some large member states. This situation would make it difficult for the United Nations to secure the debt service on the bonds early in the calendar year, and investors would be forced to rely on uncertain cash-flows. Therefore, according to the financial consultant, to achieve a high to medium-grade credit rating, investors may require two and one-half times the amount of annual debt service to be secured early in the calendar year.<sup>10</sup>

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<sup>8</sup>Regular budget assessments are due on January 31 of each year and are considered to be in arrears if they are not paid by December 31. The United States is the single largest contributor, and it does not pay its regular budget assessment until the last quarter of the calendar year.

<sup>9</sup>The rating agencies would evaluate the United Nations on various criteria, including the predictability and collectability of the regular budget assessment.

<sup>10</sup>According to the financial consultant, by providing debt service in excess of required debt service, the United Nations would provide a “cushion” to protect investors from potential declines in revenues available for debt service, thus raising the creditworthiness of the loan and lowering the interest costs.

Based on the financial consultant's proposal, while a special assessment would be levied to pay the debt service on the bonds, the payment of the debt service would be linked to the payment of the regular U.N. budget assessment. According to the financial consultant, this arrangement would be needed because member states would likely pay their regular U.N. assessments first to keep the United Nations functioning rather than paying the special assessment for the debt service on the bonds.<sup>11</sup> While payment of the regular budget assessment presents some uncertainty, it still would be perceived as more predictable than projected revenues from a special assessment for the renovation, which has no collection history. For instance, some member states, faced with limited funds or with legislative restrictions, could decide not to contribute to the U.N. renovation or to pay the interest rate costs associated with the bond offering.<sup>12</sup>

In addition, according to the financial consultant, member states would have to establish a bond trustee and a debt service account (lockbox) on the regular budget to assure bondholders of the return of their investment. Such a trustee would manage the cash flow to pay the debt service on the bonds. Figure 15 illustrates how the regular budget assessment mechanism would be linked to the lockbox to secure the debt service payments. For example, as the trustee receives member states' assessments, the trustee would put the first 20 percent of each assessment into a debt service account (lockbox) and send the remaining 80 percent to the United Nations' regular budget.<sup>13</sup> This cash-flow diagram assumes a 100-percent commercial bond offering and the requirement that all debt service funds be collected in the first quarter of the calendar year.

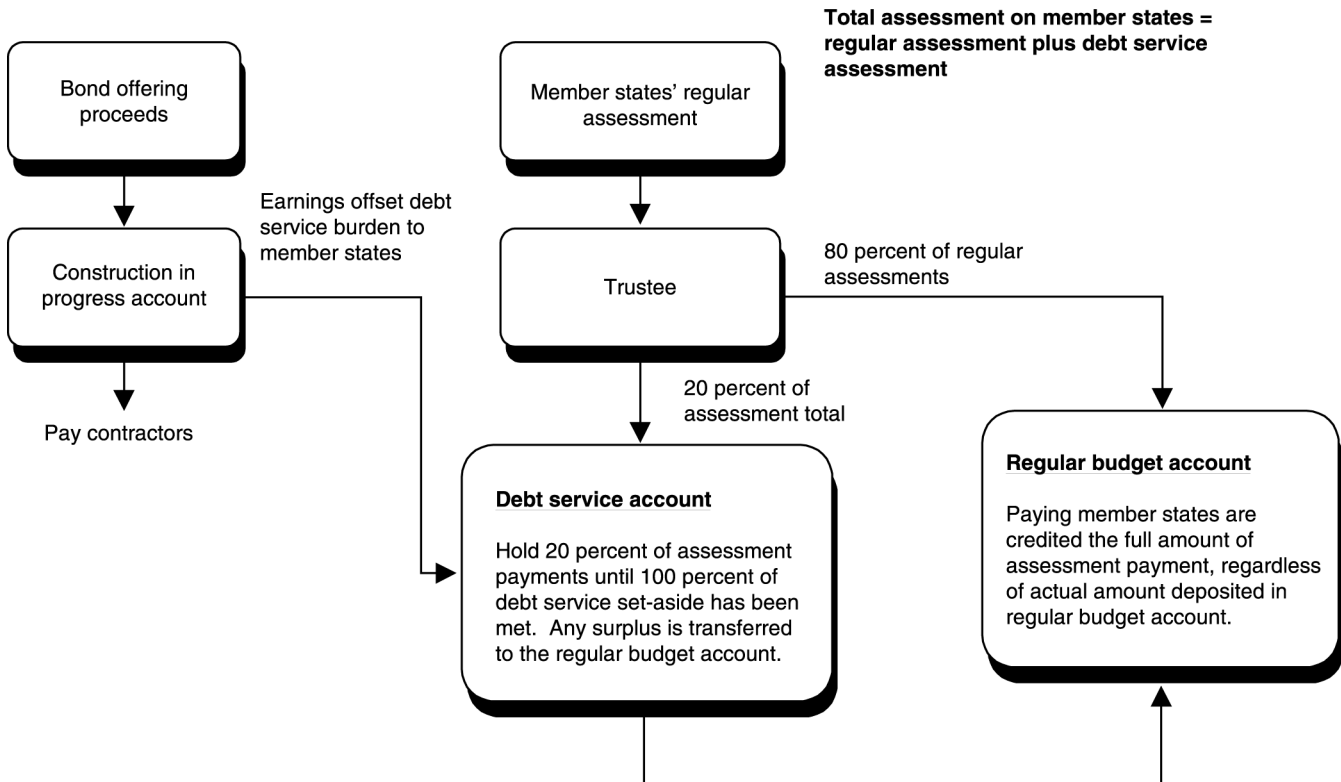
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<sup>11</sup> Most of the regular budget assessment, about 80 percent, is used for staff and staff-related expenses. According to the financial consultant, investors would be sensitive to the impact of any debt service set aside on the daily operations of the United Nations. Setting aside too little may result in a shortfall when debt service comes due. However, if too much is set aside, the United Nations may not have the funds to meet operating needs.

<sup>12</sup> According to U.N. officials, the regular budget assessment could be increased to include debt service obligation.

<sup>13</sup> According to the financial consultant, based on a multiyear review of regular assessment collections, if 20 percent of the assessments made were set aside for debt service, all of the required debt service would be collected within the first quarter.

Figure 15: Financing Option: Cash Flow for Paying U.N. Commercial Bond Debt Service



Source: GAO's analysis of United Nations' financial consultant information.

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## Legislative Restrictions

The Secretary-General does not have the authority to borrow funds from sources that are external to the United Nations. A General Assembly approval would be required, as well as individual agreements between the bond trustee and each member state, if bond financing were approved.<sup>14</sup> Further, if the commercial bond offerings were approved by the General Assembly, under current U.S. law, funds appropriated to the Department of State for contributions to international organizations would not be available for payment to the United Nations for the U.S. share of interest costs incurred through external borrowing.<sup>15</sup> Similarly, under the United Nations Reform Act of 1999 (commonly known as “Helms-Biden”), in order to make the second and third installment of U.S. arrears, the Secretary of State is required to certify that the United States has not paid any interest costs incurred by the United Nations through external borrowing.<sup>16</sup>

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<sup>14</sup>Based on Articles 17 and 18 of the *Charter of the United Nations*, budgetary matters require a two-thirds vote of the General Assembly.

<sup>15</sup>See Public Law 106-553—Appendix B, 114 Stat. 2762A-93. This is an annual appropriation restriction that may not be made applicable to future contributions.

<sup>16</sup>See Title IX of Division A of H.R. 3427, enacted into law by Public Law 106-113.

## Other Financing Possibilities and Financial Advisory Group

Figure 16: Other Financing Possibilities and Financial Advisory Group



### Financing possibilities and advisory group

- Other financing possibilities considered
- Financial advisory group to be established

Source: GAO analysis of U.N. information.

The U.N. Secretariat considered other financing possibilities, including commercial loans guaranteed by member states, borrowing against the assets of the United Nations, and borrowing from the World Bank (International Bank for Reconstruction and Development (IBRD)).<sup>17</sup> Commercial loans were not considered practical, since they would require individual member states to act as legal guarantors of a loan granted to the United Nations. Outside borrowing against the United Nations' assets was not considered viable because the United Nations' assets cannot be used as collateral and are generally immune from litigation. As for borrowing from the IBRD, the United Nations has not begun to explore the possibility with bank officials, but in 1947, it was concluded that a loan by the IBRD was considered impracticable because the IBRD can only lend to a member nation or to a business, industrial, or agricultural enterprise on the guarantee of a member.<sup>18</sup> (See fig. 16.)

The Secretary-General plans to establish a five-member financial advisory group, comprised of financial experts and eminent persons, to assist him in examining and exploring all viable financing options, as well as identifying possible sources of voluntary contributions. As of May 2001, the advisory group had not yet been established.

<sup>17</sup>The Capital Master Plan also proposed that a combination of interest-free loans and a bond offering be explored.

<sup>18</sup>In addition, the United Nations had also considered borrowing from the IBRD in 1994-95 when the United Nations was faced with a financial crisis, but the United Nations did not explore the proposal with the IBRD.

## New York Makes Contributions to and Receives Benefits From U.N. Presence

**Figure 17: New York City and New York State Make Contributions to and Receive Benefits From U.N. Presence**



- New York City altered streets and land for U.N. site; provides U.N. security and safety details
- New York State established a corporation (UNDC) that issued tax-exempt bonds to construct buildings on behalf of the U.N.; currently provides fixed-rate leasing to U.N. agency
- New York City generated \$3.3 billion in economic activity in 1994 as a result of U.N.'s presence
- As part of contribution, U.N. would like New York City and UNDC to contribute office space

Sources: United Nations Development Corporation, the United Nations, and GAO analysis.

Some member states believe that the United States, New York State, and New York City derive net economic benefits from the presence of the U.N. headquarters in New York. Therefore, they believe that the United States, New York State, and New York City should pay a larger share of the renovation costs than the U.S. share of the regular U.N. budget (22 percent as of January 2001).<sup>19</sup> (See fig. 17.)

<sup>19</sup>This was also the position of member states in 1947 when it was decided that the headquarters complex would be located in the United States. In addition, it was also acknowledged that almost the entire cost of construction would be spent in the United States. For example, it was stated that U.S. labor would be used to construct the buildings and that the bulk of the material would be purchased in the United States. We have not determined the extent to which the United States benefited from the original construction spending.

No systematic cost-benefit study has been undertaken on this issue, but there are costs and benefits associated with being host to U.N. headquarters.<sup>20</sup> Both New York City and State have made contributions to the United Nations since its inception. As part of its contribution to the United Nations, New York City undertook extensive commitments valued at about \$20 million<sup>21</sup> (equivalent to about \$143 million in year 2000 U.S. dollars) to make alterations in the surrounding streets and land to create a continuous and uninterrupted U.N. site. In addition, New York City incurs annual costs of providing the routine security and safety detail involving the United Nations and the diplomatic community.<sup>22</sup> The city also provides public schooling for some of the children of U.N. diplomats.

In addition, to be responsive to the growing needs of the United Nations and the diplomatic community, in 1968 the New York State legislature established a public benefit corporation, known as the United Nations Development Corporation (UNDC). UNDC was mandated to create more office space, hotel accommodations, housing, and other facilities in the immediate vicinity of the U.N. headquarters. Between 1973 and 1987, UNDC issued tax-exempt municipal bonds to finance the construction of buildings on behalf of the United Nations community.<sup>23</sup> The first long-term, tax-exempt bonds issued by UNDC to finance construction of office space for the United Nations were secured in part by the “moral obligation” of the state of New York—that is, by a special reserve fund to which state money could be appropriated if required. Subsequent bonds were secured in part or in full through revenues generated by leasing space in the buildings.

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<sup>20</sup>On March 6, 2001, we requested information from the New York City government on the annual costs and benefits to the city due to the United Nations’ presence. As of May 31, 2001, we did not receive this information from city officials.

<sup>21</sup>This information was obtained from President Harry S. Truman’s official files dated February 10, 1948.

<sup>22</sup>According to an official in the State Department’s Office of Diplomatic Security, the federal government reimburses New York City for extraordinary costs (about \$7 million annually) associated with providing security for the United Nations.

<sup>23</sup>State and local governments achieve considerable interest cost savings in debt financing as a result of the tax-exempt status of municipal bonds. Investors are willing to accept the lower yields because they also gain advantages from the tax exemption. The interest income on municipal bonds has historically been exempt from federal income tax, and, frequently, municipal bonds are exempt from state and local income taxes as well.

One issue that affected the UNDC's capacity to aid the United Nations was the loss of its ability to issue tax-exempt municipal debt on behalf of the United Nations. Based on the Tax Reform Act of 1986, the United Nations is treated as a private business, and its offices are ineligible for tax-exempt financing. In 1997, New York City urged the President and the Congress to restore the UNDC's ability to issue tax-exempt bonds for U.N. office buildings. In his request, New York City's Mayor emphasized the benefits of the United Nations and its affiliated agencies to New York and the United States.<sup>24</sup> Also, according to the city, one of the major incentives offered by other nations to the United Nations and its affiliates is rent-free office space. In the past, the cost of U.N. office space in the United States has been reduced, because the office space has been financed with tax-exempt bonds.<sup>25</sup> The Congress did not enact legislation to restore UNDC's authority to issue tax-exempt bonds for the United Nations.

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<sup>24</sup>New York City 1997 Federal Program (New York: New York City government, 1997).

<sup>25</sup>To prevent the United Nations International Children's Emergency Fund from relocating to another country, in 1994 UNDC renegotiated and restructured its original lease, which resulted in fixed annual rental payments extending to 2026.

In turn, both New York City and State realize economic benefits from being the host to U.N. headquarters. On the basis of a study that was prepared by New York City in 1995,<sup>26</sup> the city reported that in 1994, the U.N. headquarters, agencies, missions, and consulates directly spent approximately \$1.5 billion in the New York City metropolitan area. In addition, the U.N. headquarters, agencies, missions, and consulates directly employed 16,400 people.<sup>27</sup> The study further reported that in addition to the direct economic impact of increased economic activity and jobs, spending by the United Nations' extended system and its employees creates a "ripple effect" of related economic activity, thus channeling a total of about \$3.3 billion into New York City's economy.<sup>28</sup> This study has not been updated.

As part of its plan to renovate the headquarters complex, the United Nations hopes that New York City and UNDC would contribute temporary space to house U.N. staff during the renovation. On the basis of the Capital Master Plan, the United Nations' temporary space options include leasing from UNDC or from the commercial sector, adding floors to existing on-site buildings, and possibly constructing a new building off-site or on-site. The Capital Master Plan cost estimates for temporary space range from \$62 million to \$91 million, which includes leasing or constructing a new building. The \$62 million option, which would involve leasing through UNDC, is reflected in the Capital Master Plan cost estimates. However, the Secretariat states that construction is a better option, in terms of economy and anticipated future space needs. According to U.N. officials, they are currently interested in a plot of land, which is owned by New York City, as a possible site to construct a building for temporary space, as well as to satisfy permanent office space needs. City officials state that if the Congress were to restore the tax-exempt financing status on behalf of the

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<sup>26</sup>*New York City and the United Nations: Celebrating a 50 Year Partnership.* (New York: New York City Commission for the United Nations and Consular Corps, Sept. 1995).

<sup>27</sup>The report also stated that the U.N. extended system employs a total of 30,700 people directly and indirectly, and that the extended system pays a total of \$850 million in salaries annually. The total amount of direct and indirect salaries generated in the New York City metropolitan area by the U.N. extended system and its ripple effect is \$1.2 billion annually.

<sup>28</sup>Procurement by U.N. headquarters only in the United States was about \$200 million in 2000, or about 28.5 percent of total headquarters procurement. Russia was the second highest country of procurement volume by country, with about \$91 million, or 13 percent.

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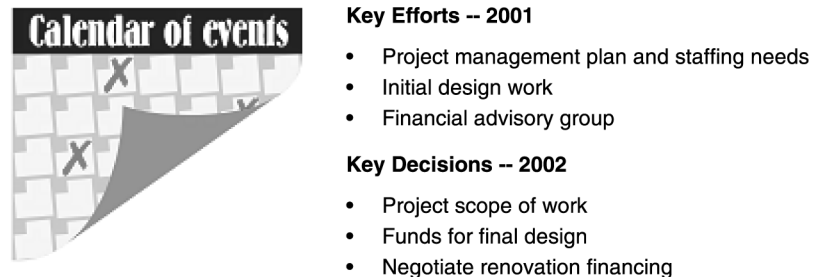
**Appendix III**  
**Financing Options for U.N. Renovation**

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United Nations, UNDC could issue tax-exempt bonds to construct the building.

# Key Efforts and Decisions for the U.N. Renovation

**Figure 18: Key Efforts and Decisions for the U.N. Renovation**



Source: GAO analysis of U.N. information.

Based on discussions with the project staff, the following sections explain our understanding about the project schedule in 2001 and 2002 (see fig. 18).

## Key Efforts for 2001

*Evaluate project management plan and staffing needs.* U.N. staff are in the process of considering different project management approaches. Also, according to the U.N. staff, they are currently considering when additional staff with the requisite skill and experience should be brought on board and whether staff could be found within the existing U.N. architect and engineering office. Two key positions they are considering are a project manager, who would be a U.N. employee and represent overall U.N. interests, and a construction manager, who would be contracted to handle day-to-day project activities.

*Complete U.N. initial design work.* In a Request for Proposals (RFP) dated March 22, 2001, the United Nations solicited proposals for “the preparation of a comprehensive design plan and cost analysis, including all viable alternatives, to be performed in this preliminary phase.” The work is scheduled for completion in late 2001. Further, the RFP noted additional future services, which may include “the remaining services of the Design Phase (design development, construction documents), the services of the construction phase (construction bid support and construction administration) and the related General Services of portions.”

*Establish the financial advisory group.* The U.N. Secretary-General has proposed to establish a financial advisory group, comprised of prominent individuals with expertise in finance and fund-raising, to explore the financing options and to begin a fund-raising campaign. The Secretary-

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General is considering several experts at this point, and U.N. officials anticipate that in the spring of this year they would devote full attention to this matter and establish the advisory group shortly thereafter.

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## Key Decisions for 2002

*Project scope of work.* In the spring of 2002, the Secretary-General plans to present the results of the initial design work to member states for their consideration. The initial design work would provide all viable renovation options. Based on these options, member states would decide on a scope of work for the project, whether to go forward with the total package or various component options, and a time frame for construction. The Secretariat hopes these decisions could be made in 6 months.

*Decide on funding for the final design.* Work on the final design cannot start until members decide on the project scope of work and appropriate funds, estimated at about \$37 million, for the effort. The Secretariat currently anticipates that the funding would be available beginning with the 2003 to 2004 biennium budget, which starts in January 2003. According to U.N. officials, the Secretary-General does not plan to request the funds as part of the 2002 regular U.N. budget but is considering requesting the funds for a separate construction account.

*Negotiate financing arrangements.* Member states will need to begin negotiating the financing arrangements. The Secretariat hopes that member states could reach a decision on the financing during calendar year 2002. Although the final design and firm cost estimates would not be completed, U.N. officials hope an agreement on how the renovation would be financed can be reached.

# Role of the Department of State in the U.N. Renovation

**Figure 19: Role of the Department of State**



- The Administration and State have not yet developed a comprehensive U.S. position.
- Member states, New York, and other stakeholders look to the United States to play a major role as the host government.
- The United States is expected to play a major role on key issues such as scope of work, financing, and monitoring.

Source: Department of State.

According to the Department of State's strategic plan and public summary of its activities, the Department is the lead U.S. government institution for the conduct of foreign diplomacy; leads representation of U.S. policy at international organizations; conducts negotiations with international organizations; and, through the Bureau of International Organization Affairs and the U.S. Permanent Representative to the United Nations, ensures that U.N. activities and actions advance U.S. interests. To this point, State has been in a listening mode with regard to U.N. renovation proposals and has been following the planning phase, according to State officials. According to the Assistant Secretary of State for International Organization Affairs, the administration and Secretary of State have not yet developed a comprehensive U.S. position on the renovation. (See fig. 19.) Moreover, no mechanism has yet been set up that could lead to the establishment of a team with the necessary expertise to oversee the renovation. Such a team, according to State officials, might be comprised of experts on construction management, building renovation, U.N. financing and negotiation, and U.N. budgeting. The Assistant Secretary also said stakeholders in the renovation assume that U.N. headquarters will remain in New York, but a decision on the U.S. position would have to be made by the Secretary of State, other executive branch officials, and New York City and State policymakers.

Representatives of several member states said member-state involvement in the renovation process was needed now to ensure that timely decisions could be made. They also expect the United States to play a major role in making key decisions about the renovation, including scope of work and financing choices. For example, according to U.N. officials, some member states would consider providing interest-free loans to finance the project

but, they need the United States to take the lead in advancing this proposal. Some member state representatives have also expressed interest in being the host country for U.N. headquarters, if the renovation does not proceed. According to a State official, member states expect the U.S. government to articulate a position on whether it wants the U.N. headquarters to remain in the United States. Similarly, New York City and State governments could help finance the renovation, but they would like the U.S. government to articulate a position on whether it wants the United Nations to remain in New York.

Some member states further expect the United States, as the host country, to help monitor the project. The United Nations has never undertaken a single construction or renovation project of this scope, and representatives of member states have expressed doubts about the Secretariat's ability to manage this project. The United Nations' Office of Internal Oversight Services acknowledged that it does not currently have the expertise to perform this specific oversight role but has agreed that it would assume this responsibility by hiring people with the necessary skills.

In response to such expectations, officials from State's Bureau for International Organization Affairs and the U.S. Mission to the United Nations told us they have overall responsibility for developing and implementing U.S. policies within the United Nations. However, since the Secretary-General has not yet requested the funding for the renovation, State has not budgeted and requested any funds for the renovation in fiscal year 2002. Nonetheless, the Secretary-General plans to request funds (estimated at \$37 million) to complete the final design work in the spring of 2002 and likely will request members to appropriate the funds in a separate construction account for use in 2003. In addition, the Secretary-General plans to request that member states decide on the scope of work for the renovation and negotiate financial arrangements during 2002. Thus, for timely budgetary consideration of these requests by the Congress and the executive branch, State would need to begin work on these issues. According to State and U.S. Mission to the United Nations officials, to thoroughly cover the issues, a team with expertise in construction management, building assessment, U.N. negotiations and financing, and U.N. legislative affairs would have to be assembled from within State and possibly elsewhere in the executive branch.

Based on our review of the U.N. planning to date and key steps remaining in the project development process (see apps. I, II, III, and IV), if the overall

U.S. position is to support the renovation, such a team could perform the following tasks:

- Ensure the Secretariat develops a comprehensive project management plan. U.N. officials acknowledged that such a plan should identify a disciplined decisionmaking process and include a statement of project goals and objectives; the management approach and team; and a description of key management tools to be employed, such as budget, schedule, and cost control measures.
- Review the Secretariat's conceptual design report, particularly to ensure that it confirms that all viable renovation options have been considered.
- Ensure that a functional space analysis has been conducted, which lays out the best and highest use of existing building space. This review would also take into consideration plans for temporary space to house U.N. staff during the renovation, as well as determining whether additional permanent office space may be required.
- Ensure that an appropriate financial advisory group has been established. The advisory group members would include prominent individuals with expertise in finance and fund-raising and would explore the financing options and begin a fund-raising campaign.
- Analyze the cost estimates and their assumptions to determine their reasonableness.
- Analyze the financing options and their associated financial and policy implications for the U.S. government.
- Conduct the necessary work to negotiate an appropriate share of U.S. costs for the renovation. One aspect of this work could be to follow up with New York City and State officials to obtain their views on the proposed renovation and to advance a study of the annual costs and benefits to the United States and New York of being the host to U.N. headquarters.
- Ensure that the funds to be provided by the U.S. government are budgeted and appropriated at the right time.

# Comments From the United Nations

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POSTAL ADDRESS—ADRESSE POSTALE: UNITED NATIONS, N.Y. 10017  
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REFERENCE:


12 June 2001

Dear Mr. Johnson,

Thank you for your letter of 11 June 2001 enclosing a copy of the draft report entitled "United Nations: Planning for Headquarters Renovation is reasonable; United States Needs to Decide Whether to Support Work". We have reviewed the Report of the General Accounting Office (GAO) on the proposed renovation of the United Nations Headquarters in New York, and are in agreement with the findings and conclusions therein.

We truly appreciate the comprehensive, insightful and constructive assessment of the current situation and the work undertaken thus far. We wish to thank the United States General Accounting Office for the spirit of cooperation with which the review was conducted.

Yours sincerely,

  
Joseph E. Connor  
Under-Secretary-General  
for Management

Mr. Harold J. Johnson  
Director, International Affairs and Trade  
United States General Accounting Office  
Washington, DC 20547

# Comments From the Department of State



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

JUN 13 2001

Dear Ms. Westin:

The Department of State appreciates the opportunity to review the GAO draft report "UNITED NATIONS: Planning for Headquarters Renovation Is Reasonable; U.S. Needs to Decide Whether To Support Work," GAO-01-788, Job Code 320054.

The Department's comments are enclosed for incorporation, along with this letter, as an appendix to the GAO final report. Technical comments were provided to your staff separately.

If you have any questions concerning this response, please contact Ms. Debbie Wynes, Director, Office of UN System Administration, Bureau of International Organization Affairs, at (202) 647-6424.

Sincerely,

  
Larry J. Eisenhart  
Acting

Enclosure:  
As stated.

cc:  
GAO/IAT - Mr. Miyabara  
State/IO/S - Ms. Wynes  
/OIG - Mr. Atkins

Ms. Susan Westin,  
Managing Director,  
International Affairs and Trade,  
U.S. General Accounting Office.

Department of State Comments  
on GAO Draft Report

"UNITED NATIONS:  
Planning for Headquarters Renovation Is Reasonable;  
U.S. Needs to Decide Whether to Support Work"

GAO-01-788, Job Code 320054

The Department greatly appreciates GAO efforts in reviewing UN headquarters renovation plans. Officials within the Department (including our mission in New York) and in the United Nations secretariat have worked closely with the GAO team, and we feel strongly that GAO's analysis has been of significant benefit both to the U.S. Government and the UN.

The Department concurs with GAO's recommendation on the need for strong U.S. leadership and coordination regarding the UN headquarters renovation project. We plan to press this issue at the appropriate levels over the coming months. GAO's conclusion that the UN's efforts to date have been reasonable and consistent with industry best practices will provide important input to this initiative. Given the potential size and scope of this project, we welcome GAO's continued participation as the UN develops more concrete plans and as we address the challenging decisions that lie ahead.

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# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Tetsuo Miyabara, (202) 512-8974  
Ronald L. King, (202) 512-5248

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## Staff Acknowledgments

In addition to the names above, Barbara Shields, Thomas Johnson, Maria Edelstein, Lisa Wright-Solomon, Carolyn Black-Bagdoyan, Mark Speight, Lynn Cothorn, and Rona Mendelsohn made key contributions to this report.

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