



**NINTH SESSION OF THE SUBCOMMITTEE
ON PROGRAM, BUDGET, AND ADMINISTRATION
OF THE EXECUTIVE COMMITTEE**

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**UPDATE ON THE MASTER CAPITAL INVESTMENT FUND AND
REASSESSMENT OF REAL ESTATE PROJECTS IN THE MASTER CAPITAL
INVESTMENT PLAN**

Introduction

1. The purpose of this report is to inform Member States on the status of the Master Capital Investment Fund and to provide an update on the reassessment of the real estate repair and refurbishment liability facing the Pan American Health Organization. Information technology needs and implementation strategy are addressed in document SPBA9/15, Draft PASB Information Technology Strategy.

Status of the Master Capital Investment Fund

2. The Master Capital Investment Fund comprises four subfunds created to provide distinct funding sources for:

- a) Real estate maintenance and improvements;
- b) Information technology needs;
- c) Vehicle replacement; and
- d) Purchase of new premises.

3. As of 31 December 2014, the available balance of the Real Estate Maintenance and Improvement Subfund is \$1,804,810,¹ the available balance of the Information Technology Subfund is \$306,849, the available balance of the Vehicle Replacement Subfund is \$378,520, and the available balance of the Revolving Strategic Real Estate Subfund is \$0.

4. In accordance with Resolution CSP27.R19 (2007), the Director is required to notify the Executive Committee of any funds transferred to the Master Capital Investment Fund from surplus income. The transfers proposed are addressed under Agenda Item 4.2,

¹ Unless otherwise indicated, all monetary figures in this report are expressed in United States dollars.

Proposal for the Use of the Balance of the IPSAS and Budgetary Surpluses, and Item 4.3, Programming of the Revenue Surplus. With regard to the Master Capital Investment Fund, the following transfers are proposed:

- a) \$2.0 million to the Information Technology Subfund;
 - b) \$2.0 million to the Real Estate Maintenance and Improvement Subfund; and
 - c) \$1.0 million to the Vehicle Replacement Subfund.
5. The recapitalized Information Technology Subfund will support implementation of the Information Technology Strategy (see Document SPBA9/15).
6. The Real Estate Maintenance and Improvement Subfund will support feasibility studies and implementation of the real estate projects identified within the Master Capital Investment Plan.
7. The real estate industry typically uses a ratio of between 1% and 2% of a building's value as an indicator of the annual repair and investment requirements necessary to maintain and replace the building. The approximate value (using 2013 appraised figures) of PAHO-owned buildings is \$79.7 million, resulting in an annual buildings-related investment target of \$1.6 million (at 2%). It is anticipated, therefore, that \$1.6 million per year (\$3.2 million per biennium) will be allocated to the Program and Budget for transfer to the Real Estate Maintenance and Improvement Subfund to address current and future real estate liabilities. The Director may choose to use revenue surplus from miscellaneous income to finance shortfalls related to building repair and replacement.
8. The recapitalized Vehicle Replacement Subfund will be used to support centralized planned procurement of official vehicles to leverage bulk procurement opportunities and to reduce the administrative burden of country offices, with recapitalization in future years managed through a combination of a depreciation charge levied on offices and the income generated from sales of vehicles.

Reassessment of Real Estate Projects within the Master Capital Investment Plan

9. A comprehensive Region-wide condition assessment survey of PAHO-owned real estate was conducted in 2014. This survey comprised a fire safety risk assessment, an initial environmental review, and a detailed inspection of the major building components of all PAHO-owned buildings to identify their anticipated remaining design life and the cost implications of any necessary maintenance and renewal within the next 10 years. The survey work was undertaken by independent professional surveyors. A standardized risk assessment tool was used to prioritize the recommended repair and maintenance work, with security and safety projects assigned a higher priority.
10. The results of the condition assessment survey are presented in Annex A: Reassessment of Real Estate projects in the PAHO Master Capital Investment Plan. This

updated plan for real estate projects details the estimated real estate investment needs of PAHO during the next 10 years and includes PAHO-owned country offices; rented, leased, or donated (provided to PAHO free of charge) country offices; and the Headquarters building. Rented, leased, or donated offices were not inspected by professional surveyors.

11. PAHO owns offices in Washington, D.C. (main Headquarters building), Argentina, Barbados, Brazil, Guatemala, Haiti, Paraguay, Peru, and Venezuela. PAHO is responsible under the provisions of long-term lease agreements for maintenance and repair of its facilities in Guyana and Jamaica.

12. This document addresses real estate issues and is complementary to Document SPBA9/15 (Draft PASB Information Technology Strategy) and Document SPBA9/11 (Status of Projects Funded from the PAHO Holding Account).

Context

13. PAHO is not alone within the United Nations system organizations in owning and managing aging real estate facilities. Many UN agencies own facilities that were constructed in the 1960s and are thus approaching the end of their anticipated design life. Ownership of such facilities infers exposure to higher risks of component failure, business interruption, increased maintenance and operating costs, and contravention of host country building and legislative standards. An absence of sustainable funding sources with which to finance major refurbishments or renewals represents a barrier to implementation of any necessary repair or renewal work.

14. The creation of a comprehensive, Organization-wide capital investment plan is considered a best practice within the real estate management industry and is recognized as such by the Joint Inspection Unit of the United Nations Management System.² To ensure that a comprehensive capital investment plan is realistic and objective, it is necessary to conduct an independent professional assessment of missed or deferred maintenance or renewal, and any resulting risks and liabilities must be identified and measured to establish priorities and a coherent strategy.

15. The United Nations is currently conducting a strategic capital review³ of its principal sites, and WHO is preparing specifications and cost estimates, in consultation with the Swiss authorities, for a comprehensive renovation of its Geneva headquarters.⁴

16. The fundamental goals of the UN and WHO plans are to ascertain real estate liabilities and risks and to put in place long-term, prioritized, sustainably funded strategies to manage and mitigate those liabilities and risks. PAHO is at the start of a

² Document JIU/REP/2014/3: Capital/Refurbishment/Construction Projects Across the United Nations System Organizations.

³ Document A/68/733: Strategic Capital Review: Report of the Secretary-General.

⁴ Document A67/61: Real Estate: Update on the Geneva Buildings Renovation Strategy.

similar process, and this document presents the preliminary costs of repairs and renovations identified through the 2014 survey assessing the condition of the PAHO buildings.

17. The next steps will comprise the elaboration of a proposed strategy to address the risks and liabilities identified as well as proposals for how that strategy could be financed.

Survey Results

18. The table in Annex A summarizes the results of the condition assessment survey. The information is broken down by PAHO-owned country offices; rented, leased, or owned country offices; and Headquarters. The figures are estimates pending detailed feasibility studies, specifications, and procurement processes, and they do not include all professional fees or allowances for inflation. The information contained in the table will be used as a basis for further study and analysis in 2015 and beyond, and the figures represent a draft need rather than a confirmed implementation plan.

Projects Implemented in 2014

19. Annex B provides a summary of the building projects implemented in 2014 using the Master Capital Investment Fund. Annex C provides a summary of the building projects implemented in 2014 using Holding Account funds. (The Holding Account was created as a result of excess budget availability from the 2006-2007 biennium. One-time, major infrastructure projects in the administrative and technical areas were authorized by the 48th Directing Council in Resolution CD48.R1 of 2008.) Implementation of Holding Account real estate projects was delayed in 2014 pending the results of the condition assessment and the elaboration of a comprehensive real estate strategy.

Next Steps

20. The identification of necessary real estate projects and their relative priority is the first step. The next step is an analysis and validation of the data to ascertain the advantages and disadvantages of undertaking the repairs identified and to investigate and weigh the costs and benefits of any alternative options available. This work will be conducted in the first quarter of 2015 and will produce a proposed location-specific Master Capital Investment Strategy for Real Estate to address the real estate projects identified by the survey. This strategy and the proposed updated Master Capital Investment Plan will be presented to the Executive Committee in June 2015.

Action by the Subcommittee on Program, Budget, and Administration

21. The Subcommittee is invited to take note of this report, and to provide any recommendations it might consider necessary.

Annexes

Annex A: Reassessment of Real Estate Projects within the Master Capital Investment Plan

Annex B: Master Capital Investment Fund. Real Estate and Maintenance Improvement Subfund - projects implemented in 2014

Annex C: Implementation of the Holding Account projects related to real estate

Annex D: Funding Requirements and Proposed Sources of Funds

Annex A

**Reassessment of Real Estate Projects within the Master Capital Investment Plan
(in thousands of US\$)**

	2014-2015	2016-2017	2018-2019	2020-2021	2022-2023	Total
1. Estimated resources needed for Repairs and maintenance						
Country offices and Centers rented/ leased/provided free of charge	260.7	407.0	42.5	10.0	110.0	830.2
Country offices owned by PAHO	2,008.5	1,862.7	1,326.1	2,576.9	1,354.3	9,128.4
Headquarters	1,550.0	19,892.1	19,149.8	7,535.3	2,705.6	50,832.9
Total Repairs and Maintenance	3,819.2	22,161.8	20,518.4	10,122.2	4,169.9	60,791.5
2. Acquisition of land, construction of buildings and relocation costs						
Country offices and Centers rented/leased/provided free of charge	0.0	105.0	0.0	0.0	0.0	105.0
Country offices owned by PAHO	0.0	0.0	0.0	0.0	0.0	0.0
Headquarters	0.0	0.0	0.0	0.0	0.0	0.0
Total Acquisitions and Construction	0.0	105.0	0.0	0.0	0.0	105.0
Total Estimated Construction Cost 2014-2023 (1+2)	3,819.2	22,266.8	20,518.4	10,122.2	4,169.9	60,896.5
3. Total estimated cost including consultant fees at 10% of estimated construction cost						
Estimated construction costs	3,819.2	22,266.8	20,518.4	10,122.2	4,169.9	60,896.5
Estimated consultant costs	381.9	2,226.7	2,051.8	1,012.2	417.0	6,089.7
Total	4,201.1	24,493.5	22,570.2	11,134.4	4,586.9	66,986.2

Annex B

Master Capital Investment Fund
Real Estate Maintenance and Improvement Subfund—projects implemented in 2014 (as of 31 December 2014, in US\$)

Location	Description	Planned	Disbursed	Implemented (%)
PAHO Headquarters (Washington, D.C.)	Rehabilitation of four elevators	156,478	156,478	100
PAHO Headquarters (Washington, D.C.)	Procurement of services of elevator project consultant	3,250	3,250	100
PAHO Headquarters (Washington, D.C.)	Changing of chilled water	11,800	11,800	100
PAHO Headquarters (Washington, D.C.)	Procurement of architectural services for installation of flagpoles	19,130	11,588	61
PAHO Headquarters (Washington, D.C.)	Procurement of HVAC units on B2 level	27,428	27,428	100
PAHO Headquarters (Washington, D.C.)	Upgrading of HVAC building management technologies	38,400	38,400	100
PAHO Headquarters (Washington, D.C.)	Replacement of two electrical panels	32,200	32,200	100
PAHO Headquarters (Washington, D.C.)	Security assessment for reorganization of foyer and external esplanade	23,314	3,893	17
PAHO Headquarters (Washington, D.C.)	Procurement of architectural services to create Revit background files for all floors of main building and an architectural site plan	32,922	32,922	100
PWR Argentina	Replacement of outdated wiring and installation of new lighting system	15,000	5,916	39
PWR Barbados	Replacement of emergency generator, roof straps, and fire sensors	64,700	1,903	3

Master Capital Investment Fund
Real Estate Maintenance and Improvement Subfund—projects implemented in 2014 (as of 31 December 2014, in US\$) (cont.)

Location	Description	Planned	Disbursed	Implemented (%)
PWR Colombia	Relocation of PWR office	8,389	8,389	100
PWR Cuba	Renovation/repairs in main office building and auxiliary building	23,876	3,517	15
PWR Dominican Republic	Replacement of AC equipment and ducting	70,000	0	0
PWR El Salvador	Replacement of AC equipment	39,048	39,045	100
PWR Guatemala	Relocation of PWR office	1,825,855	1,712,137	94
PWR Guyana	Replacement of AC compressors and ducting, security upgrades, and interior space rehabilitation	17,458	12,593	72
PWR Haiti	Reconstruction of PWR office	1,040,059	1,039,096	99
PWR Jamaica	Repaving of parking lot, exterior repainting, and window blind replacement	18,962	18,961	100
PWR Nicaragua	HVAC, electrical, and other infrastructure rehabilitation of auditorium	77,598	20,668	26
PWR Peru	Interior renovation and electrical upgrade to auditorium and cafeteria	35,000	18,949	54
Total		3,580,867	3,199,133	

Annex C**Implementation of the Holding Account projects related to real estate
(as of 31 December 2014, in US\$)**

Location	Project	Expenditure
Washington, D.C.	4.F: Improvements to Facilities: Refurbishment of Conference Rooms and Furniture: architectural services for the 2nd- and 10th-floor office renovations at the PAHO Headquarters building	49,485
Washington, D.C.	4.D: Improvements to Facilities: Security and Sanitary Measures: architectural services for reorganization of foyer and external esplanade and renovation of sanitary installations	18,114
	Total	67,599

Annex D

Funding Requirements and Proposed Sources of Funds

Fund	Funding Status	Funding Requirements	Proposed Source(s) of Funding	Funding Proposed
Master Capital Investment Fund (MCIF) – Information Technology (IT) Subfund	MCIF is primarily funded through the appropriation of budgetary surpluses. The available balance in the IT Subfund as of 31 December 2014 was US\$ 306,849. ¹	PASB’s Draft IT Strategy (Document SPBA9/15) indicates that the Bureau requires significant additional investment in IT infrastructure and support.	IPSAS surplus	\$2,000,000
Human Resources Strategy reserve	This is a new funding recommendation.	PASB’s Report on the Development of the Human Resources Strategy (Document SPBA9/13) indicates that one-time funding will be required to achieve the recommended transformation.	Unallocated IPSAS surplus (\$281,684) and unallocated budgetary surplus (\$773,494)	\$1,055,178
MCIF – Real Estate Maintenance and Improvement Subfund	The balance of this existing MCIF Subfund as of 31 December 2014 was \$1,804,810.	The Update on the Master Capital Investment Fund (Document SPBA9/10) sets forth the results of a Region-wide assessment of PAHO-owned real estate, identifying approximately \$2 million of needed major repairs to country office buildings per biennium for the coming decade.	Revenue surplus	\$2,000,000
MCIF – Vehicle Replacement Subfund	The balance of this existing MCIF Subfund as of 31 December 2014 was \$378,520.	The Vehicle Replacement Subfund lacks sufficient resources to launch a Region-wide, self-financing vehicle replacement program needed for country office operations.	Revenue surplus	\$1,000,000

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Funding Requirements and Proposed Sources of Funds (cont.)

Fund	Funding Status	Funding Requirements	Proposed Source(s) of Funding	Funding Proposed
Epidemic Emergency Fund - special reserve for infectious disease response	The balance of this existing fund is \$464,550.	Additional funds are required to ensure that PASB can advance funds so that Member States can procure needed supplies to respond to Ebola and other emergent outbreaks.	Revenue surplus	\$1,000,000
Revolving Fund for Strategic Public Health Supplies - capitalization	The capitalization balance stood at \$7.6 million as of 31 December 2014, less outstanding advances of \$1.6 million, for an available cash balance of \$6.0 million.	The trend toward increasing utilization of the Strategic Fund by Member States requires strengthening of the capitalization level.	Revenue surplus	\$1,000,000
TOTAL proposed for allocation				\$8,055,178
AVAILABLE SOURCES				
		Unappropriated IPSAS surplus		\$2,281,684
		Unappropriated budgetary surplus		\$773,494
		Revenue surplus		\$5,090,037
TOTAL AVAILABLE SOURCES				\$8,145,215
REMAINING UNALLOCATED AMOUNT				\$90,037
