

# Issue Brief

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## United Nations' Renovation in Midst of Global Financial Crisis – 10 Struggling Nations Cover 76% of Cost

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The United Nations is in the middle of a massive and expensive renovation of its riverside Headquarters complex on New York City's east side. The initial estimated cost was about \$1 billion, but now U.N. officials are trying to keep costs under \$2 billion. As usual, the cost is not being spread evenly among the 192 Member Nations; and the United States is the largest contributor (22% plus an extra \$100 million), with Japan second (16.6%); and just 10 nations are covering 76% of the total cost. As far as its own self-interest, the U.N. seems blind to the multiple economic and financial crises affecting nations, regions, and the entire world that started in 1997. The first renovation plans were drawn up after the Asian financial crisis; and construction began in late 2008, more than a year into the European financial crisis, and after the United States was officially in recession. While countless Americans struggle to make ends meet each month, the Obama Administration and Congress outspend tax revenues by \$1.4 trillion a year, including by faithfully supporting the U.N. with more than \$6.3

billion each year. Was the renovation necessary? Yes, but not urgent, and certainly not wise at this time. While most of the top contributing nations struggle to survive financially, every one of them has paid their share of the U.N. renovation bill in full to date. The commitments of national governments to the U.N. appears far stronger than their commitments to their own people and nations.

### Founding of United Nations & Original Construction

The United Nations was created in 1945. The 51 founding nations then had to decide where to locate the headquarters, and chose New York City. With an \$8.5 million gift from John D. Rockefeller, Jr., the U.N. purchased a 17-acre site on Manhattan Island's mid-eastern shore. The original Headquarters buildings were designed and constructed between 1948 and 1952. Construction of the core complex – General Assembly, Secretariat (administration), and Conference buildings – cost \$65 million, and was funded by a 31-year interest-free loan from the United States.<sup>1</sup> That actually means that U.S. taxpayers first loaned the money, and then paid for about one-third of it in regular U.N. dues.<sup>2</sup>

## Justifications and Plans for Renovations

Even though the U.N. complex is 60 years old, during about 100 business trips to the Headquarters over the past 12 years, it was clear to me that it continued to serve its purpose well. Yes the vinyl chairs are not comfortable for long meetings, but are still in good shape. Yes the bathrooms are aging, but were still fully functional. Most of the electronics and sound systems were working well, facilitating many meetings every day. Its condition was similar to many office buildings in Manhattan, built during that same era, that provide acceptable office space for thousands of businesses and the national delegations. Surely this renovation was not essential at this time, in view of the present global financial crisis.

Beginning in 1998, U.N. officials and consultants assessed the buildings and prepared plans for renovation. They wanted an upgraded, transformed, classy, “21st century headquarters.” Consequently, the U.S. Congress asked the U.S. Government Accounting Office (GAO) to research and report on the matter. The GAO observed, “The buildings ... no longer conform to current safety, fire and building codes or to U.N. technologic or security requirements.” According to the U.N. Capital Master Plan (CMP), submitted by then Secretary-General Kofi Annan to the General Assembly, the complex needed new electrical wiring, technology and digital transmission infrastructure, lighting, heating and air conditioning systems, fire-prevention sprinkler systems throughout, removal of asbestos, and much more. Based on the CMP, the GAO said that, “current building conditions render the headquarters unacceptable for continued long-term use.”<sup>3</sup> At the end of June 2006, the General Assembly gave final approval for the project.<sup>4</sup>

## Temporary Housing

Two critical issues in preparation for renovation were what to do with 6,000 U.N. leaders and staff (in 6 buildings), and the need for multiple large and medium conference rooms with audio and translation

capacities for numerous daily meetings. In 2005, the General Assembly asked the SG to assess “the viability of constructing a permanent building on the North Lawn of the premises”<sup>5</sup> – the area covered by grass and statues over the multi-floor garage. About a year later, the GA authorized “up to 77 million dollars for ... construction ... of a conference swing space building on the North Lawn.”<sup>6</sup> That day in the Assembly Hall, U.S. Ambassador Mark D. Wallace, Representative for United Nations Management and Reform, said the United States “supported the Capital Master Plan and the badly needed renovations,” and hoped to see “careful stewardship of the \$77 million.”<sup>7</sup> His concern was warranted; the final cost of the Temporary North Lawn Building (TNLB) was \$140 million.<sup>8</sup>

The office and meeting space were resolved as follows:

1. the Secretary-General and 271 leaders and staff would be relocated to the Temporary North Lawn Building (TNLB, then shortened to NLB) as soon as it was completed;
2. most meetings would be held in the new NLB conference rooms that would contain audio and translation services for the standard six languages<sup>9</sup>;
3. 3,000 of the Secretariat staff would be relocated to three nearby office buildings in New York City, off the UN grounds;
4. 2,000 who needed to be on-site would utilize “swing space” in safe areas, particularly the basement floors; and
5. 250 would be relocated to Long Island City.<sup>10</sup>

The NLB was well designed, and immediately became the offices for top U.N. leaders, and the primary location for many daily U.N. meetings and conferences. However, upon “completion of the Headquarters renovation,” the “temporary North Lawn Building” is to be deconstructed, according to the GA.<sup>11</sup>

Why did the U.N. spend \$140 million on a temporary building, especially when the GA originally

asked for a permanent one on the North Lawn area? From my viewpoint during meetings within the NLB, it certainly appears that it could be effectively utilized for decades to come. Why must it be torn down? Since the U.N. needs more conference room space, why not keep the NLB and not build the extra rooms (see below) planned elsewhere in the complex? The U.N. provided no explanation for the decision to deconstruct, or for why the cost doubled.

### Costs: Original verses Current Estimates

Based on the 2002 SG Capital Master Plan, the first project budget approved by the General Assembly was \$1.049 billion, plus an extra \$144 million for a “new large conference room and multi-function hall,”<sup>12</sup> – the NLB could fulfill the additional room

needs – for a total original cost estimate of \$1.2 billion. By the end of 2006, the estimated cost had jumped by \$680 million to \$1.88 billion. Even so, the GA approved it, and exhorted the SG to ensure the project was “completed within the approved budget and the envisaged time schedule.”<sup>13</sup> Nevertheless, by 2007, the U.N. projected the cost to have increased to \$2.07 billion. That’s a \$1 billion, 100% increase, within five years! That means double the cost to U.S. taxpayers and taxpayers of all Member Nations.

The reasons given for monumental escalations in cost are vague – standard for the U.N. – and difficult to comprehend, but the table below shows the general budget details, comparing the 2002 and 2007 estimates, before construction started. After the construction started in 2008, the U.N. has been trying to get the budget below \$2 billion, but is unlikely to succeed.

### 2002-2007 Estimated Cost Increases for U.N. Renovation<sup>14</sup>

Cost category	2002 estimate	2007 estimate	\$ Increase	% Increase
Construction	\$537.4 million	\$964.6 million	\$427.2 million	79.5%
Professional fees and management costs	\$97.6 million	\$234.5 million	\$136.9 million	140.2%
Contingency reserve (unplanned expenses)	\$143.0 million	\$199.9 million	\$56.9 million	39.8%
Swing space office space for 6,000 staff & meeting space during construction)	\$96.0 million	\$389.9 million	\$149.9 million (combined with Scope options)	62.5% (combined)
Scope options (added rooms, security, environmental)	\$144.0 million	Included above under Swing space		
Escalation (inflation)	\$175.0 million	\$278.0 millions	\$103.0 million	58.9%
Totals	\$1.193 billion	\$2.067 billion	\$1.018 billion	85.3%

How could construction cost estimates increase 80 percent, and overall costs increase by 85%, within a few years during struggling New York City and American economies? The extra \$427.2 million for construction might have been enough to construct the new UN office building (UNDC-5) on a site immediately south of the complex – which could have provided the temporary office and meeting space (swing) – but for which the U.N. cancelled its plans.

Are we supposed to believe that \$234.5 million for professional fees and management costs are legitimate, or even the original \$98 million, or the 140% increase? According to a 2007 GAO report, part of the increase was for \$6.4 million in “additional money for construction manager,” and \$9.0 million for “additional experts and studies.”<sup>15</sup> The most recent 2009 GAO report indicated yet another \$5.0 million was added to the “construction manager’s fee,” and \$6.0 million for “project administration.”<sup>16</sup> Sounds like some people are becoming millionaires by capitalizing on this international project!

Why were some of these cost increases not absorbed by the contingency and escalation categories, which should have decreased if the other categories had to increase? According to the 2006 GAO report, the Construction Industry Institute claims that, “the final cost of any project ... may vary from plus or minus 20 to 30 percent of the estimate.”<sup>17</sup> That is far below the 80% increase; and the economy did not improve, it declined. For the 2002 budget, even if cost increases hit 30 percent, the \$318 million in these two categories would have covered it. So what is the U.N. doing with the extra \$478 million – mostly already paid by U.N. Member Nations – that is in the categories covering inflation and contingency costs? The 2009 GAO report showed that half of this amount will be redirected to other areas, including construction, or to reduce the budget, but still leaves a CMP budget of \$1.974 billion.

- Other reasons given for cost increases include: Substantial delays in U.N. management decisions – six years from completion of first CMP to start of construction of NLB and renovation of original buildings;
- Substantial delays in relocating U.N. staff due to

severe inertia;

- Many unexpected or unplanned expenses;
- Excessive inflation in pre-construction and construction costs; and
- Choosing not to build UNDC-5, and thus incurring at least a \$50 million increase in swing space costs due to higher office rental fees in New York City.

While the renovations were underway, the UN recognized its need for even more “security enhancements” – both during and after the project – that were far beyond the regular UN or CMP budgets. In April 2011, based on the recommendation of the Advisory Committee on Administrative and Budgetary Questions, the GA authorized \$100 million. The U.N. looked to its host country, and the United States decided to “cover all costs related to the security enhancements.”<sup>18</sup>

The renovation is well underway, resulting in an almost complete gutting of the Secretariat building, including removal of 5,040 window panels to reduce energy consumption and improve “safety and security.”<sup>19</sup> The new building will be energy efficient, and provide better protection against potential explosions, including “vehicle-borne explosive devices,” which is why the “parking (area) under the General Assembly Building” will be removed.<sup>20</sup>

A final thought on costs: The U.S. Government should require the U.N. to provide a detailed breakdown of the CMP budget and expenses (just as Congress is required to do for the U.S. budget, for each and every line item), both to the United States and all Member Nations. The GAO is dependent upon the U.N. to provide documentation, but the information is too general to make accurate or astute judgments.

## Who Pays for It All?

In 1948, it was the United States that took the

initiative to provide an interest-free loan to construct the three main U.N. headquarters buildings. The U.N. considered three options for funding the present renovations: (1) assessments for cash payments from all 192 Member Nations, at the same scale as, and in addition to, the annual regular U.N. budget assessments; (2) loans, preferably interest-free, from one or more Member Nations; and (3) commercial bond offerings. In 2005, based on the original estimates, the United States offered to loan the U.N. \$1.2 billion, with an interest rate not to exceed 5.54 percent, for a 5 to 30 year period. However, the U.N. calculated that, for a 25-year loan, “total principal and interest ... would amount to \$2.511 billion”<sup>21</sup>; thus, the GA never gave approval for the loan.

The payment plan approved by the General Assembly to cover the costs of the CMP – including design, planning and pre-construction costs, plus construction of the temporary North Lawn Building

(NLB) – was direct assessments on Member Nations based on their 2007 percentages of the regular budget contributions.<sup>22</sup> At the end of 2006, the GA decided to give Member Nations two payment options: a one-time upfront payment in 2007, or five equal annual payments. Also, to ensure necessary funds were on hand, the GA authorized a “letter of credit” and a corresponding additional assessment on nations for their share of the funds borrowed.<sup>23</sup>

The U.N. began assessing Member Nations modest amounts in 2003 for the planning process, and the full assessments started in 2007 and continue through 2011. Amazingly, two nations, the United States and Japan, will cover 38% of the cost; and ten nations – adding Germany, United Kingdom, France, Italy, Canada, Spain, China, and Mexico – will pay 76% of the total cost. Just 30 nations are covering 94.3% of the total cost, and the other 162 Member Nations will pay for less than 6% of the renovation.

## Top 10 National Assessments for U.N. Capital Master Plan (2003-2011)

*(Countries assessed 76% of cost)*

Nation	2003-2010 CMP Assessments Paid <sup>24</sup>	Annual Payments <sup>25</sup>	Scale % of Assessments <sup>26</sup>	Total Projected Assessment
United States	\$259,984,075	\$75,534,800	22.000	\$412,874,000
Japan	\$257,857,391	\$57,076,842	16.624	\$314,934,233
Germany	\$131,214,826	\$29,448,272	8.577	\$160,663,098
United Kingdom	\$100,365,727	\$22,804,643	6.642	\$123,170,370
France	\$95,794,466	\$21,633,854	6.301	\$117,428,320
Italy	\$77,210,104	\$17,438,239	5.079	\$94,648,343
Canada	\$45,088,649	\$10,221,232	2.977	\$55,309,881
Spain	\$44,584,499	\$10,190,331	2.968	\$54,774,830
China	\$39,611,016	\$9,156,878	2.667	\$48,767,894
Mexico	\$33,652,683	\$7,749,184	2.257	\$41,401,867
10 nation total:	\$1,085,363,436	\$261,254,275	76.092%	\$1,423,972,836

As of May 2011, a total of “92 Member (Nations) had paid in full their assessments due and payable” to date, and “95 Member (Nations) had made partial payments,” leaving five who had “not yet made any payments to the capital master plan” (small or developing nations).<sup>27</sup>

I think it was unwise for the United Nations to undertake this massive renovation in the midst of a global economic crisis. During this period, the United States, most of the top contributors to this project, and no less than eight European nations are facing great financial difficulties, with some governments near collapse because of excessive public debt. The United States is facing its greatest financial crisis since the Great Depression. The U.S. did not have the funds to give, and like other nations, added to the enormous financial burdens they are placing upon present and future generations by going deeper into debt to make the payments. The cost to U.S. taxpayers like you and me will be \$512 million (including the \$100 million for

security improvements) – as part of the more than \$6.3 billion we contribute annually.

It is time for the U.S. and Member Nations to put a magnifying glass to the finances entrusted to the United Nations, and require meticulous accounting, careful independent scrutiny with honesty and integrity, and bold accountability. It should start with this project, now!

Further, it is time for the U.S. and other nations to genuinely evaluate their contributions to the regular budget and numerous other U.N. agency budgets, just as some have already begun to do, deciding to withdraw their annual funding.

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  2. The U.N. Committee on Contributions, of which the U.S. is one member, initially set U.S. dues to the U.N. regular budget at 49.89%, but lowered the rate to 39.89% at the end of 1946 due to strong U.S. objections. For 1954, U.S. dues were reduced to 33.3%, and to 32% by the 1960s, and then ranged between 25% and 30% throughout the 1970s to 1990s. The current rate is 22 percent.
  3. Op. cit., “United Nations: Planning,” GAO Report, GAO-01-788, Preface letter and pp. 5, 21-22.
  4. “Resolution adopted by the General Assembly: 60/282. Capital Master Plan,” UNGA, A/RES/60/282 (published 17 August 2006), pg. 2, par. 8.
  5. “Resolution adopted by the General Assembly: 59/295. Capital Master Plan,” UNGA, A/RES/59/295 (published 31 August 2005), par. 2(d).
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  7. “Acting on Budget Committee Recommendations, General Assembly Adopts ... Capital Master Plan,” UNGA, Department of Public Information, News and Media Division, 60th GA Plenary, 79th meeting, 8 May 2006. [www.un.org/News/Press/docs/2006/ga10458.doc.htm](http://www.un.org/News/Press/docs/2006/ga10458.doc.htm)
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