NOT FOR PUBLIC USE

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 92/104

3:00 p.m., August 7, 1992

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
M. Al-Jasser	
	T. P. Thomas, Temporary
	Deng H., Temporary
C. S. Clark	
T. C. Dawson	
	F. Moss, Temporary
	G. J. Matthews, Temporary
	E. Quattrociocche, Temporary
	A. F. Mohammed
I. Fridriksson	
	S. Shimizu, Temporary
	S. von Stenglin, Temporary
J. E. Ismael	
	F. A. Quirós, Temporary
	H. Dognin, Temporary
	H. Golriz, Temporary
	J. K. Munthali, Temporary
D. Peretz	
G. A. Posthumus	
	J. K. Orleans-Lindsay, Temporary
	R. Marino
A. Végh	G. Zoccali

J. W. Lang, Acting Secretary
B. J. Owen, Assistant

Also Present

Administration Department: G. Rea, Director; H. J. O. Struckmeyer, Deputy Director; T. Cole, P. G. Gerridge, A. B. Harper, Jr., W. B. Hobbs, P. J. McPhillips, G. Vaughan, H. Wiesner. External Relations Department: M. R. Kelly, Deputy Director. Fiscal Affairs Department: A. A. Tait, Deputy Director. Legal Department: J. S. Powers. Secretary's Department: T. S. Walter. Treasurer's Department: D. Williams, Treasurer; C. P. McCoy. Office of the Managing Director: A. Coune. Office of the Deputy Managing Director: A. Wright. Advisor to Executive Director: L. Dicks-Mireaux. Assistants to Executive Directors: S. Al-Huseini, S. B. Creane, R. Meron, R. K. W. Powell

1. OFFICE SPACE - LONG-TERM OPTIONS

The Executive Directors resumed from the previous meeting (EBM/92/103, 8/7/92) their consideration of a staff study on long-term options for office space.

The Director of the Administration Department commented that he saw a twofold problem with one general proposition that had been put forward during the discussion--that staff would expand to fill the space available. First, expansion of the staff could occur only if it was approved by this Board, and only if a sufficient number of Board members were persuaded that there was indeed a need for that expansion. The other aspect of that first proposition that needed to be questioned was the implicit assumption that somehow a space constraint would prevent growth in the size of the staff, the Director added. In reality, as the history of the institution showed, the space constraints that had existed had not, in fact, had any impact whatsoever in terms of preventing an increase in staff once the management and Board had seen that increase as being necessary. There had simply been no reserve space for contingencies, and as the number of staff had increased, hand-to-mouth solutions for housing the staff had had to be found, sometimes at considerable expense.

As to the proposition that it would be desirable to have more realistic estimates of staff growth over the long term, the difficulty was that it seemed extremely difficult, if not impossible, to reach an agreement with the Board on just what staff growth, if any, was likely to occur, the Director continued. It was striking, as noted in the staff study, that the Fund as an institution had not been at all successful in making realistic projections of its future in terms of growth. There was an understandable reluctance on the part of many chairs, as there was on the part of the management, to forecast or to encourage growth. Yet growth had proved necessary, although in effect it had taken place without any real space planning, and with the inevitable costs and inconvenience.

The proposal that had been put forward to house the 2,800 people who needed to be housed at the present time, and also to leave a reserve to accommodate up to about 400 more individuals, would basically provide the Fund with the flexibility to cope with such future expansion as might occur, the Director of the Administration Department said. That should not be taken to mean that an expansion was predicted, although his own view was that some further expansion would, in fact, be needed. As he recalled, the Committee on Administrative Matters had recently agreed to add something like 14 additional positions to Executive Directors' offices, apparently without considering the problem of where to find the necessary office space. The currently projected number of staff to be housed was therefore perhaps already too low.

However, the staff had attempted to provide a certain amount of reserve space, in an organized and planned way, against the contingency of some further growth, the Director of the Administration Department said. As noted in the staff study, if that space was not needed, it would be perfectly feasible to lease it out. He was sure that the World Bank was one institution that would probably be ready to help use any excess space.

The staff representative from the Administration Department observed that Mr. Wright's proposal that the PEPCO building by itself should be viewed as a new option was based on two assumptions. The first was that the current headquarters building could indefinitely continue to house 200 more people than the building was designed for. The second assumption was that because the PEPCO building had been shown as having a design capacity of 800 people, it could, in fact, hold 800 people. Both those assumptions were somewhat at fault. First, as noted in the staff study, the design capacity of the headquarters building was 1,800 people; currently, there were close to 2,000 people in the building. Consequently, it had become difficult to shift enough air to cool the building, owing to the combination of too many occupants and the heat added by computers. Another matter of great concern was that a building occupied beyond its design capacity for a long period of time carried with it the risk that the building could not be evacuated in case of fire. Although a building could be occupied above its design capacity for a while, it was difficult to recommend overcapacity as part of a long-term strategy.

As for the capacity of the PEPCO building, an analysis of its floor plans indicated that there should be space for 800 people, the staff representative added. However, work units do not fit conveniently into floor plans, and some space is always wasted. The staff estimated, on the basis of planning studies that had been made, that the PEPCO building could accommodate between 650 and 700 staff in work units that were currently not located in the headquarters building. The 400 additional offices that would become available in an expanded headquarters building and the PEPCO building would be spread throughout the two buildings, a few on every floor. It was difficult to give more precise indications.

As to whether the Fund could not rent any excess space it obtained, if Phase III were completed and the PEPCO building acquired, the staff representative said that over the past few months, the staff had been in close and constant touch with the World Bank on joint ventures at International Square for the rental of space, by one organization from the other. In addition, discussions had taken place with the owners of various buildings, although the World Bank had asked the Fund not to enter into negotiations on the Bender building in which it was interested, and the Fund, likewise, had asked the Bank to stay out of the market for the PEPCO building. With the International Finance Corporation's eventual move farther out Pennsylvania Avenue, it was his understanding that the World Bank's strategy was to try to keep most of its staff on the south side of Pennsylvania Avenue. Thus, while a joint venture was attractive in principle to both institutions, International Square would not be high on the World Bank's list of possible locations. However, the Bank's long-term growth projections made it a likely candidate to lease any spare space that the Fund might have in the future.

If work on Phase III was interrupted for the time being, and reliance placed on acquiring the PEPCO building, the staff representative estimated that approximately 300 staff would remain in leased space. That assumption was based, first, on the inevitable need to relieve pressure in the headquarters building, and second, on the fact that not all the space in the PEPCO building was usable. The cost of leasing the necessary space would be between $5 million and $6 million a year. In considering that option, which had been suggested by Mr. Wright, it should be borne in mind that the zoning permission to build Phase III was for a limited time. Permission was initially given for two years, with a right to extend for an undefined period, but the approval was not open ended. It should also be kept in mind that the market was currently favorable to construction; when the market would turn was a matter of conjecture.

The possibility of an early exercise of the PEPCO option had been discussed at some length with George Washington University, the staff representative observed. PEPCO had signed a 30-year lease in 1972, just before the oil crisis, that had no inflation clause; while it could no doubt be induced to break the lease, there would be a cost. However, knowing that it would have to vacate the building in the year 2002, PEPCO had an incentive to look for cheaper space than it would find on Pennsylvania Avenue. At the same time, it would take approximately two years to refit the building to Fund standards and requirements. Even if PEPCO could be persuaded to vacate the building within a reasonable period of time--say, two years--the Fund would be able to take possession, at the earliest, in four years.

The issue of financing, and the relative merits of purchasing or leasing, were matters for consideration when the negotiations with George Washington University had been completed, the staff representative considered. Mr. Dawson had mentioned that the Fund and George Washington University had the same tax advantage, which meant that a leasing arrangement could be as financially interesting to the Fund as purchasing. Certainly, George Washington University was most reluctant to lose any of its space permanently, as it had agreed with the District on a boundary for the campus. While it would be difficult to persuade the University to agree to sell the property outright, the staff would be willing to try.

Half of the leases on the space being used by the Fund at International Square would expire in 1998, with the other half expiring in the year 2000, the staff representative noted. All the leases were extendable, and space could be sublet, if that became necessary.

A number of other possible options had been explored at some length, the staff representative commented, including ownership of International Square and swaps. As noted in EBAP/92/129, International Square was owned by a consortium, but the land was owned by one individual; both were experiencing financial difficulties. The complexity of the situation made it very difficult to know what the most favorable terms might be. A swap, which had been discussed in principle, would not be worthwhile exploring, since the Fund headquarters building and International Square were the same size. The

Fund would have to acquire another building to swap for International Square for such a transaction to have any appeal.

Other sites than the PEPCO building had been looked at, the staff representative noted. The other building that was mentioned in Table 2 of Appendix III was a specific site on I Street, five or six blocks from the Fund building. The owners were sufficiently interested in selling the site to have made a model of a building, and the costs indicated in the table were thus realistic.

Approximately $2.4 million of the $8.3 million budgeted for Phase III had been spent or committed, the staff representative from the Administration Department stated. If work on Phase III was postponed for the time being, the negotiations with George Washington University on the PEPCO building could be financed out of the balance. The request for an additional $200,000 for that purpose could be withdrawn.

The Director of the Administration Department noted that the Executive Board was not ready to agree to proceed with both Phase III and the PEPCO option. Considerable interest had been shown in the PEPCO option, which some Directors preferred to Phase III. Of course, the PEPCO option offered more space than Phase III, and the combination of Phase III and the PEPCO building that had been put forward for consideration would provide more space than was currently needed.

It was for consideration, the Director of the Administration Department continued, whether the staff should be permitted to proceed with negotiations with PEPCO, with the objective of providing the Board with specific figures on the cost of the two possibilities: outright purchase of the PEPCO building; a long-term, 60-70 year lease arrangement, possibly with a lump-sum payment up front. The Treasurer's Department would need to provide, at the same time, a paper on financing arrangements. In addition to determining the costs of the two possibilities, the staff would obtain a better idea of PEPCO's own plans, for instance, whether it was interested in cutting short its own lease, and the nature of the financial inducement--which might be substantial--that would be needed to persuade PEPCO to do so.

In the meantime, no further work on Phase III would be done, the Director added. However, the Fund would proceed to carry out its commitment, under its contract with the Western Presbyterian Church, to build the new church and clear the site.

By the time it reported back to the Board, the staff should also have a better idea, in the context of the administrative budget for FY 1994, of the growth, if any, in staff numbers, the Director of the Administration Department remarked. In the meantime, the course of action he had suggested would give the space planning staff the directions it needed to proceed.

The Acting Chairman said that the two possibilities--to look into both leasing and buying the PEPCO building--would have to be examined in the context of at least three broad options. The first option would be the PEPCO building, plus continued leasing of any residual needs into the future, which was Mr. Wright's basic suggestion. The second would be Phase III plus PEPCO. A third possible option would be PEPCO plus Phase III. The choice would depend greatly on how quickly PEPCO would be prepared to leave the building. The Fund would have to lease all of its needs until the year 2000 if PEPCO was not prepared to terminate its lease in the immediate future, in which case, Phase III might be financially more reasonable. Alternatively, if PEPCO was prepared to move out quickly, the work on Phase III could be delayed and the work on PEPCO could be advanced. Those would be the three broad options that the Board would have to consider when it returned to the matter.

Mr. Dawson remarked that he took the point made by the Director of the Administration Department on the failure of projections of space needs to mesh with reality. Unfortunately, the estimates had been rather consistently biased in one particular direction, which led him to fear that Mr. Wright had been right to suggest that if the institution continued to grow, it would simply be postponing a decision that would have to be taken at a later stage.

International Square should be retained as an option in the further work to be done by the staff, Mr. Dawson considered. He was still not convinced that it would be impossible to find a way to sublet excess space, either through cohabitation with one of the Fund's sister institutions, or otherwise. The International Square building clearly had enough space, and it was an extremely desirable location.

The additional information to be provided by the Administration Department, together with the paper by the Treasurer's Department on financing, should be sufficiently detailed to avoid one of the problems that had been of concern to his chair, Mr. Dawson added. In the past, a series of partial decisions had been taken, committing the Fund to action that it could not undo, or at least not without cost, but it was not conducive to taking a set of integrated decisions. The financing decision in particular would become more of a problem for the Board than may have been apparent at an earlier stage, and the positions of some Board members might be affected by the way in which the financing requirements were to be met.

While, reluctantly, he had to differ with one or two Directors who still looked longingly at the suburban-build option, at least in the near term in any sense, Mr. Dawson said that he had wondered whether the staff had considered looking at Bretton Woods as a possible site for the suburban location.

Mr. Mohammed asked whether the option that Mr. Goos and he had shown some preference for--Phase III plus continued leasing at International Square for the overflow--had been ruled out.

The Acting Chairman responded that that option could be kept as part of the package to be looked into.

The Director of the Administration Department commented that if the Board rejected a specific proposal when it was brought forward--assuming that a suitable proposal for acquiring the PEPCO building could be negotiated--the Fund would have to fall back either on Phase III or on leasing, or on both.

Mr. Dawson, in response to a question by Mr. Mohammed, said that he had in mind as an option the purchase of International Square, either wholly or jointly with the World Bank, instead of Phase III and PEPCO.

The staff representative from the Administration Department noted that the total cost of purchasing International Square would be $300 million. The problem was that, unless an arrangement could be made to share the building with the World Bank, as an owner the Fund would have serious problems in terms of its tax status.

The Director of the Administration Department added that, as noted in the staff study, on the basis of the Fund's current needs of about 400,000 square feet at International Square, approximately 600,000 square feet would have to be rented. The Fund would thus become a major landlord in the Washington market, at a considerable capital cost.

Mr. Dawson observed that it was difficult for him to reconcile the assumption that the Fund would use only 400,000 square feet with the fact that the PEPCO plus Phase III option would make available 700,000 square feet.

The staff representative from the Administration Department explained that the International Square option covered only the space currently occupied by the Fund, namely, 400,000 square feet, without any provision for expansion. Phase III plus PEPCO building would provide considerably more space which would cover expansion. The real problem with the option to purchase International Square was that the Legal Department had raised serious questions about the Fund leasing more space in a building than it was occupying itself. The question that would have to be addressed in such a case was whether the Fund's primary objective was to make money out of leasing space, or to provide space for staff. In any event, the staff would continue its discussions with the fragmented group that was interested in the possibility of selling International Square.

Mr. Dawson said that as he understood the figures, the International Square building would make available one million square feet of net office space, compared with 715,000 square feet of net office space under the Phase III plus PEPCO option. He recognized that negotiations to purchase the International Square building and land posed difficulties, but he wished to stress the desperation of the owners.

The Director of the Administration Department observed that of the one million square feet of space at International Square, the Fund was currently occupying 400,000 square feet. If it held back the same reserve for itself as it would under the Phase III and PEPCO option, the space occupied would rise, perhaps to 600,000.

Mr. Dawson remarked that in theory, the space needed should rise to approximately 715,000 square feet because breathing space was being included in the design of Phase III and PEPCO, to avoid having to move work units onto different floors or into different buildings. That flexibility would no doubt also make space available to enable the Fund to become a net lessor to the Bank, which already had offices across the street from International Square.

The Acting Chairman, in response to a question by Mr. Peretz, said that there was a mutual advantage for the Fund and the World Bank in leasing to each other, in the sense that neither would be subject to tax.

Mr. Dawson added that that was the advantage of the PEPCO option, because the owners of the PEPCO building had the same tax status as the Fund.

Mr. Peretz said that basically he could support the course of action outlined by the Director of the Administration Department and the Acting Chairman. In addition, he supported Mr. Dawson's request that the attempt be made to take up the decisions as a whole, including that on financing. Likewise, he looked forward to having a detailed assessment of the arguments for and against the option suggested by Mr. Wright at the previous meeting, namely, for the PEPCO building only.

In that connection, if George Washington University was not likely to be a willing seller of the PEPCO building, and if PEPCO was likely to be unwilling to break its lease, the negotiations to be undertaken were likely to be rather one sided, given the Fund's strong preference for the building, Mr. Peretz commented. In the circumstances, the Board might be justified in requiring an independent certification by qualified professional advisors that whatever price or lease agreement was negotiated did, in fact, reflect proper market values, and that the Fund was not paying more than the current market price. The Fund's hand in the negotiations would also be strengthened by the knowledge that the Board would require such certification before it would agree to implement any agreement.

Mr. Dawson said that he supported Mr. Peretz's proposal.

Mr. Al-Jasser said that he also supported Mr. Peretz's suggestion. Along the same lines, he suggested that the initial exploration of the advantages and disadvantages of the PEPCO building would be facilitated if the Fund avoided sending any message that it was less interested in Phase III than it was before. It was important for the staff to let it be known, as it entered the negotiating phase, that as many options as possible were being considered.

The Director of the Administration Department commented that George Washington University would have no interest in reducing its asking price if it suspected that the Fund was not interested in a serious negotiation. A fairly delicate balance would have to be struck, apart from the need to persuade the Executive Board that the price would be an acceptable one. As indicated in the staff study, some of the estimated costs were higher than the staff hoped to be able to negotiate, in part because they were based on preliminary asking figures, which had been brought down somewhat, and could perhaps be brought down further, although there was no guarantee of that.

Mr. Al-Jasser said that he took the point made by the Director of the Administration Department. It was a matter of keeping all the options on the table, and of not leaving the impression that a decision had been made to opt for the PEPCO building. The staff would then report to the Board and to management on the feasibility of the option, and whether or not to recommend it, without detracting from the seriousness of the negotiations.

The staff representative from the Administration Department noted that in the preliminary discussions with George Washington University, it had been evident that the Fund's exploratory conversations on the International Square option, and a number of other options as well, were common knowledge. In addition, before thought had been given to the PEPCO option, the Fund had obtained the services of an outside legal firm to hire, indirectly, a professional real estate appraiser. The market value of the building had thus been established, through a third party, and the Treasurer of George Washington University had accepted it as a baseline.

Mr. Dawson noted that as a result of the discussion, a number of clear and realistic options had emerged, and to the extent to which it was appropriate, the Board's interest in those options should strengthen the hand of the staff as it entered into the negotiations.

The Acting Chairman, in summing up the outcome of the discussion, noted first, that the staff would enter within the coming weeks into a negotiation, ad referendum, with George Washington University and PEPCO on the precise terms, including questions of timing, of the possible acquisition of the PEPCO building. As soon as the work was completed, a paper would be presented to the Board on the broad options for adequate office space, including (1) the PEPCO building, plus continued leasing; (2) the PEPCO building, then Phase III; and to reverse the sequence, Phase III then the PEPCO building; (4) purchase of International Square; and (5) Phase III, plus leasing. In addition, the paper would spell out the financial implications for the Fund of each of the options. Meanwhile, further work and expenditure on Phase III would be held up; this would permit use of up to $200,000 of the money appropriated for Phase III to cover the legal, financial, and real estate consulting fees of the negotiation with

George Washington University and PEPCO on the possible acquisition of the PEPCO building.

The Executive Board agreed to follow the course of action summed up by the Acting Chairman with respect to long-term options for office space.

Adopted August 7, 1992

2. SAN MARINO - MEMBERSHIP - COMMITTEE

The Acting Chairman recalled that on May 29, 1992, (EBD/92/111, 5/29/92) the Fund had received an application for membership from San Marino. He proposed that a Committee be established to proceed with the formal investigation and report to the Executive Board.

The Executive Directors accepted the Acting Chairman's proposal and took the following decision:

The Executive Board, under Rule D-1, decides to establish a committee to proceed with the formal investigation, to obtain all relevant information, and to discuss with the Government of the Republic of San Marino any matters relating to its application for membership in the Fund. The committee shall consist of Mr. Fridriksson (Chairman), Mr. Dawson, Mr. Evans, Mr. Filosa, Mr. Mirakhor, Mr. Santos, and Mr. Torres.

Adopted August 7, 1992

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/92/103 (8/7/92) and EBM/92/104 (8/7/92).

3. BANGLADESH - ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, the Executive Board extends the period for completing the next Article IV consultation with Bangladesh to September 14, 1992. (EBD/92/171, 7/31/92)

Decision No. 10111-(92/104), adopted
August 7, 1992

4. NICARAGUA - EXCHANGE SYSTEM

Retention by Nicaragua of the multiple currency practice arising from the operation of private foreign exchange houses originally approved until August 14, 1992 under Decision No. 9958-(92/36) is extended until November 30, 1992 or the completion of the 1992 Article IV consultation, whichever is earlier. (EBD/92/171, 7/31/92)

Decision No. 10112-(92/104), adopted
August 7, 1992

APPROVED: March 24, 1993

LEO VAN HOUTVEN
Secretary