

directing council



PAN AMERICAN
HEALTH
ORGANIZATION

XXVIII Meeting

regional committee

WORLD
HEALTH
ORGANIZATION

XXXIII Meeting



Washington, D.C.
September-October 1981

INDEXED

Provisional Agenda Item 27

CD28/37 (Eng.)
12 August 1981
ORIGINAL: ENGLISH

BUILDINGS AND INSTALLATIONS

Report on the Governor Shepherd Building

In Resolution I of the 85th Meeting of the Executive Committee the Representatives of Chile, Jamaica, and the United States of America were appointed to form a Working Group to make recommendations to the Director with regard to the future of the Governor Shepherd Building.

The Working Group convened at the Headquarters of the Pan American Health Organization from 1 to 3 December 1980, and in its report submitted to the Director on 5 March 1981 requested additional information from the Secretariat prior to the 86th Meeting of the Executive Committee. The Group met again on 19 June to review this information, and subsequently made an oral presentation to the Committee on its findings and recommendations. The Executive Committee adopted the resolution proposed by the Working Group, in which the Committee authorized the Director to proceed with all the necessary steps to implement the recommendations of the Group and to report to the Directing Council at its XXVIII Meeting.

The Report of the Working Group, contained in Document CE86/3, and Resolution XIV of the 86th Meeting of the Executive Committee are attached as Annexes I and II.

The Working Group will meet again on 18 September 1981 to review the progress made on its recommendations, prior to the submittal of the project by the Director to the Directing Council with a view to obtaining a final decision.

Annexes

*executive committee of
the directing council*



PAN AMERICAN
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*working party of
the regional committee* CD28/37 (Eng.)
ANNEX I

WORLD
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86th Meeting
Washington, D.C.
June-July 1981

Provisional Agenda Item 19

CE86/3 (Eng.)
15 April 1981
ORIGINAL: ENGLISH

BUILDINGS AND INSTALLATIONS

Report on the Governor Shepherd Building

In Resolution I of the 85th Meeting of the Executive Committee the Representatives of Chile, Jamaica, and the United States of America were appointed to form a Working Group to make recommendations to the Director with regard to the future of the Governor Shepherd Building.

The Working Group convened at PAHO Headquarters from 1 to 3 December 1980 to review the 10 major alternatives contained in the study made by the consulting firm, and to formulate recommendations.

The Group submitted its report to the Director on 5 March 1981, together with its recommendations, and requested certain action be accomplished by the Secretariat prior to the 86th Meeting of the Executive Committee. The Group will meet again on 19 June to review the information requested of the Secretariat, and will report to the Executive Committee on this meeting.

The report of the Working Group on the Governor Shepherd Building, together with a table showing the financial characteristics of selected alternatives, is attached.

WORKING GROUP OF THE EXECUTIVE COMMITTEE
REPORT ON THE GOVERNOR SHEPHERD BUILDING

I. INTRODUCTION

1. Background

In 1968 the Directing Council at its XVIII Meeting requested the Director to study the Organization's long-term space requirements since the space in the Headquarters building was insufficient.

In 1969, with approval of the 61st Executive Committee (Resolution XXI) and with the concurrence of the Directing Council at its XIX Meeting (Resolution XXIX), the Organization purchased the Governor Shepherd Building at 2121 Virginia Avenue. This acquisition solved the short and intermediate space requirements. It also guaranteed the availability of land within the immediate vicinity of the present Headquarters building to meet the long-range space requirements of the Organization. The Governor Shepherd building was acquired as an investment to be operated on a self-financing basis, consequently, no appropriation of funds was requested or required.

A stage has been reached when decisions are required concerning the future of this property. The Governor Shepherd, built in the late 1930's, still is in relatively good structural condition, but the operating systems and the protection from the weather require substantial and costly renovation, repairs, and replacement. Specifically, the systems requiring this work are heating and ventilation, electrical, plumbing, and elevators. Major work is needed on the roof and exterior to ensure a weathertight building. In addition, expenditures are required to bring the building into compliance with District of Columbia Safety Codes.

Due to the major expense involved in making such renovations and repairs, it was deemed appropriate to undertake a complete study of the best approach to the development of this property in relation to the best interests of the Organization. Accordingly, after an analysis of competitive bids and professional qualifications, the firm of Mills, Clagett & Wening, Architects, Engineers and Planners, was contracted to carry out a feasibility study of development of possibilities for the Governor Shepherd property.

2. The Study by the Consultants

The purpose of the study was to identify the highest and best economic use of the property, given the Organization's current need for 20,000 net square feet of usable space and a possible long-term need for approximately 60,000-80,000 net square feet.

Four development options were proposed which provided 18 alternative combinations of mixed use space. These alternatives are referred to as "studies" in the consultant's report. The first three options evaluate alternative uses for the existing building with and without added structure. The fourth option is a proposal for demolition of the existing structure and construction of a new building on the existing/expanded site.

Of the 18 studies under the four options, the Consultant's report focused on 10 major alternatives, listed below. The other eight studies were variations of these 10, differing only in project magnitude and scope.

Option 1. Offices and Apartments or Condominiums

- 1.1 Renovation of existing building for PAHO offices and rental apartments (Study 1)
- 1.2 Renovation of existing building for PAHO offices and condominium apartments for sale (Study 2)
- 1.3 Same as 1.1 but with construction of an annex (Study 3)
- 1.4 Same as 1.2 with construction of an annex (Study 4)

Option 2. Offices and Apartment-Hotel

- 2.1 Renovation of existing building for PAHO offices and apartment-hotel (Study 7)
- 2.2 Same as 2.1 but with construction of an annex (Study 8)

Option 3. Offices and Apartments

- 3.1 Renovation of existing building for PAHO offices and rental space for a mix of offices and condominium apartments (Study 10)

Option 4. New Building - Offices and Condominiums

- 4.1 Demolition of existing building and construction of a new building for PAHO offices and apartments for rent (Study 13)
- 4.2 Same as 4.1 but for PAHO offices and condominium apartments for sale (Study 14)
- 4.3 Same as 4.2 but on an expanded site which includes the existing site and an adjacent site (Study 18).

3. The Working Group

The Executive Committee, during its 85th Meeting in October 1980, approved Resolution I on Buildings and Installations (see Annex).

In this Resolution the Executive Committee appointed the Representatives of Chile, Jamaica, and the United States of America to constitute a working group to make recommendations to the Director with regard to the development of the Governor Shepherd building.

4. Convening of the Working Group

The Working Group was convened at the PAHO Headquarters, Washington, D.C., from 1 to 3 December 1980.

Participation was as follows:

Working Group Representatives

Chile	Arq. Isabel Rosés P. Departamento de Recursos Físicos Ministerio de Salud Pública Santiago, Chile
Jamaica	Mr. Donald E. Miller Permanent Secretary Ministry of Health and Social Security Kingston, Jamaica
USA	Mrs. Marlyn Kefauver Director, Office for the Americas Office of International Health Department of Health and Human Services Rockville, Maryland, USA
	Mr. Neil Boyer Agency Director, Health and Narcotics Program (HNP) Bureau of International Organization Affairs Department of State Washington, D.C., USA
	Mr. Peter W. Hahn Office of Foreign Buildings Operations Department of State Washington, D.C., USA

Other Participants

PAHO Mr. William E. Muldoon
 Chief of Administration

 Mr. Luis Larrea Alba, Jr.
 Chief, Department of Conference and General Services

 Mr. Emilio del Campo
 Systems Accountant

Consultants Mr. Robert W. Wening, Jr.
 Mills, Clagett & Wening, Chartered
 Architects, Engineers, Planners

 Mr. James Donald
 Mills, Clagett & Wening, Chartered
 Architects, Engineers, Planners

 Mr. James Donald
 Mills, Clagett & Wening, Chartered
 Architects, Engineers, Planners

 Mr. Oakleigh J. Thorne
 Regional Manager
 Coldwell Banker Management Corporation

 Mr. Richard L. Patch
 Richard L. Patch, Inc.
 Construction Cost Engineers

The following representatives were elected officers of the Working Group:

Chairperson: Arq. Isabel Rosés P. (Chile)

Rapporteur: Mrs. Marlyn Kefauver (USA)

II. METHODOLOGY OF THE WORKING GROUP

1. The Working Group reviewed the documents prepared by the consultant firm of Mills, Clagett & Wening focusing on the four options (18 studies) outlined in said documents. In addition, members of the Working Group added two other options for consideration:

1.1 Keep current building as is with the required maintenance

1.2 Sell the property and use the proceeds to lease office space required.

2. The options were analyzed taking into consideration the following four components:

- 2.1 Office space requirements for PAHO Headquarters (current and future)
- 2.2 Financial capability of the Organization
- 2.3 Role of PAHO as a non-profit health organization and its responsibility to safeguard the interests of the Member Governments and follow the established policies of the Organization
- 2.4 Total size and usage of the building in relation to its cost and economic value upon completion of the project.

3. The Working Group, based on the four components above, determined initially that six of the alternatives appeared the most economically feasible:

- Study 2 Renovation of existing building for PAHO offices and condominium apartments for sale
- Study 4 Same as Study 2 with construction of an annex
- Study 10 Renovation of existing building for PAHO offices and rental space for a mix of offices and condominium apartments
- Study 14 Demolition of existing building and construction of a new building for PAHO offices and condominium apartments for sale
- Study 18 Same as study 14 but on an expanded site which includes the existing site and an adjacent site
- Study 19 Sell the property and use the proceeds to lease office space required (this option was proposed by the members of the Working Group).

4. In reviewing these six alternatives, the Working Group applied five criteria considered basic to the Organization's needs:

4.1 PAHO Additional Office Space Requirement

- 4.4.1 Currently there exists a need for office space outside the Headquarters building. The Organization already occupies three and one half floors in the Governor Shepherd Building.

- 4.1.2 The present space at the Governor Shepherd Building is not efficient for office use. Since the building was designed for apartments, conversion into offices results in a high percentage of unusable space and an inadequate office environment in the usable space.
- 4.1.3 Selling the property would provide sufficient funds to cover only about three years of leased office space elsewhere in the metropolitan area. Applying this option would create a financial burden on the budget of the Organization after the third year.
- 4.1.4 Office space farther away from the Headquarters building would generate other costs in addition to the leasing, i.e., messenger service, transportation, and a possible psychological effect on staff.
- 4.1.5 Leased office space is difficult to obtain in the Washington Metropolitan area, especially near the Headquarters building.
- 4.1.6 Ownership of office space is preferable

4.2 Existing Building or New Construction

- 4.2.1 The present structure does not meet the Building Code requirements of the District of Columbia.
- 4.2.2 Bringing the building up to Code standards is not an efficient investment of capital.
- 4.2.3 Due to current Code requirements, some action must be taken now requiring expenditures which would do little to enhance the building.
- 4.2.4 Remodeling of the current building would not provide flexibility for conversion of use due to zoning laws in the District of Columbia. For example, to convert the existing rental units into residential condominiums would entail an expensive and time-consuming process because of laws relating to present tenants. That problem would not be present in construction of a new building.
- 4.2.5 PAHO would have less economic value in a remodeled building than in a new building. It was determined that remodeling would cost US\$50 per square foot and would add 20 years of useful life to the Governor Shepherd. New construction would cost \$75 per square foot and would have 40 years of useful life.

4.3 Uses of Building

A mixed use structure was considered the most advantageous.

4.3.1 Apartment-hotel/PAHO office: While this option would have certain benefits, it would encounter difficulty with zoning restrictions, would increase PAHO involvement in management of the space and would cause a significant burden on PAHO for debt servicing.

4.3.2 Condominium apartment/PAHO office: This use would be feasible in all aspects, but would not provide for potential future PAHO office space expansion.

4.3.3 Condominium apartment/PAHO office/rental office: This use would meet current space needs, provide for future expansion of PAHO office space, offer growing rental income to aid in debt servicing or building maintenance, and require reasonable PAHO financing.

4.3.4 All office occupancy: This use was not pursued because extensive time, effort and cost would be needed to obtain zoning changes, with no assurance that the changes could be accomplished; it also required higher initial financial input from PAHO than did other uses.

4.4 Current versus Expanded Site

Comparing the studies provided by the consultants, which contained a detailed financial analysis, it was clearly demonstrated that a new building on an expanded site would:

4.4.1 Provide for a more efficiently designed and more attractive building.

4.4.2 Provide more income-producing space.

4.4.3 Require a relatively small additional investment, resulting in a proportionally greater increase in value.

4.5 PAHO Financing Capabilities

In reviewing PAHO's financial position, it was determined that PAHO is not currently involved in long-term debt and has established excellent credit relationships with financial institutions.

The Working Group agreed that non-commercial sources of funds would be preferable, if available, possibly through loans by Member Governments or foundations so that lower interest rates might be obtained. It also agreed that any debt incurred should not involve the use of regular budget funds or special assessments to Member Governments.

The Working Group also determined that PAHO could reasonably handle the working capital requirements of several of the options, particularly if they included condominium apartments providing for quick return of working capital.

III. CONCLUSIONS

1. Through the process described in the preceding pages, the Working Group was able to come to some basic conclusions as to the most viable and productive alternatives for the Organization with regard to the Governor Shepherd building. The Working Group decided that proposed alternatives 14 and 18 (summarized below) of the consultant's document were the most desirable approaches to the handling of the property.

2. Since both alternatives are dependent on the ability of PAHO to secure a mortgage and, for alternative 18, to ascertain the availability of adjacent land at a reasonable cost and PAHO's ability to handle the added initial financing needs, the Working Group has made specific recommendations to the Director for the Executive Committee's review, and has also asked the Secretariat to proceed in the interim to obtain the necessary information regarding both financing and land availability. The Working Group will review the progress made by the Secretariat in obtaining this information before the next meeting of the Executive Committee in June 1981, in order to prepare an addendum to this report, if necessary.

3. Recommendations to the Director that:

3.1 PAHO construct a new building in place of the Governor Shepherd building with a reservation of between 60,000 and 80,000 square feet of office space to be used in part by PAHO as needed to supplement its current HQS office space; the remainder of the office space to be initially rented in conformance with zoning regulations; and the balance of the building to contain condominium apartments to be sold publicly.

3.2 PAHO seek to acquire the adjacent properties to enhance the economic acceptability of the proposed building.

- 3.3 The Secretariat seek financing from foundations, banks, international organizations, other financial institutions or other sources.
4. Request for action by the Secretariat to be accomplished before the 86th Meeting of the Executive Committee.
 - 4.1 PAHO should make every effort to ascertain the availability of one or more of the adjacent properties.
 - 4.2 The Secretariat should analyze the potential accomplishment of these tasks within the cash flow capacity of PAHO, and present the viable options to the Working Group.
 - 4.3 The Secretariat should proceed, on the basis of the financing and cash flow plans proposed in studies 14 and 18, to make preliminary investigations with Member Governments, foundations, banks, international organizations, other financial institutions, and other sources to seek out appropriate financing.
 - 4.4 The Secretariat should present the conclusions of these efforts to the Working Group for its advice and review prior to the meeting of the Executive Committee.

Annexes



EXECUTIVE COMMITTEE OF
THE DIRECTING COUNCIL

PAN AMERICAN
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85th Meeting

WORKING PARTY OF
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85th Meeting

RESOLUTION I

BUILDINGS AND INSTALLATIONS

THE EXECUTIVE COMMITTEE,

Taking into account the information presented by the Secretariat concerning the condition of the Headquarters Governor Shepherd Building and on the office space requirements for Area II and the Publications and Documentation Service;

Considering that the Governor Shepherd Building requires substantial and costly repairs and replacement of operating systems, including heating and ventilating, electrical power, plumbing and elevators;

Considering that a consulting firm of architects, engineers and planners has conducted a feasibility study of development possibilities for the Governor Shepherd property, and has recommended a number of options for development;

Considering that the Government of Mexico has offered a site for construction of a building to accommodate the offices of Area II and the Publications and Documentation Service; and

Considering that architectural consultants have completed preliminary plans for a building for the Area II Office at an estimated cost of \$500,000,

RESOLVES:

1. With regard to the Governor Shepherd Building:
 - a) To thank the Director for taking the initiative to analyze the existing and potential problems concerning the Headquarters Governor Shepherd property;
 - b) To appoint the Representatives of Chile, Jamaica, and the United States of America to constitute a working group to make recommendations to the Director with regard to the development of the Governor Shepherd Building;
 - c) To request the Director to convene the working group as soon as possible in order to make recommendations to the Executive Committee concerning the Headquarters Governor Shepherd Building.

2. With regard to the Area II office building:
 - a) To request the Director to seek \$250,000 from WHO for construction of a building;
 - b) To authorize the Director to proceed with contracting for construction of a building at a cost of up to \$500,000.

ANNEX TO THE WORKING GROUP'S REPORT
ON THE GOVERNOR SHEPHERD BUILDING

Financial Characteristics of the Construction Options

A summary of the financial characteristics of the 10 major alternatives focused on in the Consultant's Report is shown in the attached statement.

Financial information is provided for each alternative as a whole. When condominium housing is included in an alternative, financial information is also provided for both its income producing and condominium components. Income producing uses include rental apartments, apartment-hotel, retail/restaurant, and parking. Separate characteristics are provided for income producing and condominium project components because of the differences in the nature of these investments.

Income producing property is held for long periods of time and continuously provides a return to the investor from rental income. Permanent financing generally is used, and loan payments are included in operating expenses. The economic value created in income-producing property is the difference between its economic value and development cost. Investors in income-producing property try to maximize the return on their equity.

Condominium property is marketed prior to project completion and sold as quickly as possible. Return on investment is provided on a one-time basis from the initial sale of condominium units. Consequently, the development of condominium property does not require permanent financing except for the unit buyers. The economic value of a condominium project is the value of sales revenues. The economic value created in condominium development is the difference between its sale proceeds and development costs.

FINANCIAL CHARACTERISTICS OF SELECTED ALTERNATIVES FOR FINANCIAL ANALYSIS

ALTERNATIVES	INCOME PRODUCING COMPONENT (Offices, Retail, Apartments, Apartment Hotel)				CONDOMINIUM COMPONENT			TOTAL PROJECT	
	Project Cost (\$)	Economic Value (Loan Value) (\$)	Final Equity (Cash Required) (\$)	Return on Equity (%)	Project Cost (\$)	Economic Value (Sales Revenue) (\$)	Value Created Above Cost (\$)**	Project Cost (\$)	Economic Value Upon Completion (\$)
<u>Option 1</u> (Apt or Condo and Office)									
1. Existing building with mixed apt. office use	3,687,771	4,935,343	3,904,742	1.77	--	--	--	7,687,771	4,935,343
2. Existing building with mixed condo/ office use	5,630,309	3,795,148	791,948	6.48	4,584,965	4,110,000	(-1)174,965	7,923,274	7,905,148
3. Addition A with mixed apt/ office use	10,776,724	6,020,911	6,261,041	1.37	--	--	--	10,776,724	6,020,911
4. Addition A with condo/ office use	4,423,177	3,943,058	1,455,883	3.84	6,709,108	6,481,440	(-227,668)	11,134,285	10,424,498
<u>Option 2</u> (Apt, Retail and Offices)									
7. Existing building with mixed apt. hotel/ office use	8,039,914	5,331,210	4,041,507	1.88	--	--	--	8,039,914	5,331,210
8. Addition with mixed apt. hotel/ office use	10,528,611	6,475,990	5,671,618	1.63	--	--	--	10,528,611	6,475,990
<u>Option 3</u> (Apt or Condo and Offices)									
10. Existing building with mixed condo/ office use	5,530,356	3,843,368	1,148,030	7.27	3,117,969	2,055,000	(-1),062,969	8,648,325	7,898,368
<u>Option 4</u> Alternate B1A (Apt or Condo and Offices)									
13. New building with mixed apt/ office use	13,587,224	11,362,470	5,065,371	2.08	--	--	--	13,587,224	11,362,470
14. New building with mixed condo/ office use	3,389,488	6,734,426	677,628	9.21	8,780,691	11,917,650	3,136,959	14,169,139	18,242,076
<u>Alternate B2</u> (Apt or Condo and Offices on expanded site)									
18. New building with mixed condo/ office use	6,641,944	8,339,106	587,615	13.16	12,789,313	17,269,500	4,980,187	19,131,257	25,608,606

*Income Producing Component -- Value Created Above Cost (Loan Value minus (-) Project Cost)

**Condominium Component -- Value Created Above Cost (Net Profit = Sales Revenue minus (-) Project Cost)

***Total Project -- Value Created Above Cost (Loan Value and Sales Revenue minus (-) Total Project Costs)

EXECUTIVE COMMITTEE OF
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CD28/37 (Eng.)
ANNEX II

RESOLUTION XIV

GOVERNOR SHEPHERD BUILDING

THE EXECUTIVE COMMITTEE,

Taking into account the information presented by the Secretariat to the Working Group appointed by the 85th Meeting of the Executive Committee to make recommendations with regard to the development of the building;

Considering that the Governor Shepherd Building requires substantial and costly repairs and replacement of operating systems, including heating and ventilating, electrical power, plumbing and elevators, to bring the building into compliance with District of Columbia Safety Codes; and

Considering that a consulting firm of architects, engineers and planners has conducted a feasibility study of development possibilities for the Governor Shepherd property, and has recommended a number of options for development, and that the Working Group of the Executive Committee has examined these proposals and recommended that a new building be constructed,

RESOLVES:

1. To authorize the Director to proceed with all necessary steps to implement the following recommendations of the Working Group:

- (a) That PAHO continue to develop information relating to the construction of a new building in place of the Governor Shepherd building with a reservation between 60,000 and 80,000 square feet of office space to be used in part by PAHO as needed to supplement its current Headquarters office space, the remainder of the office space to be initially rented in conformance with zoning regulations, and the balance of the building to contain condominium apartments to be sold publicly to finance the major part of the cost of construction, or alternative approved facilities;
- (b) That PAHO enter into preliminary negotiations regarding the acquisition of either or both of the adjacent properties, provided that such acquisition would increase the net economic value of the proposed building and that such acquisitions would in no way affect the working budget of PAHO;

- (c) That PAHO also enter into preliminary negotiations with foundations, banks, international organizations, other financial institutions or other sources in order to develop financing of the project on the best possible terms to PAHO, while ensuring that there is no negative impact on the regular budget or the effective conduct of PAHO program activities.
2. That the Director report to the XXVIII Meeting of the Directing Council on the progress made and the financial implications of the project, with a view to obtaining a final decision regarding the project.

(Approved at the ninth plenary session,
26 June 1981)

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XXVIII Meeting

Washington, D.C.
September-October 1981

XXXIII Meeting

Agenda Item 27

CD28/37, ADD. I (Eng.)
28 September 1981
ORIGINAL: ENGLISH

BUILDINGS AND INSTALLATIONS

The Working Group established by the Executive Committee to study the Governor Shepherd Building met on 18 September 1981 to review the progress made on the Working Group's recommendations, which were incorporated in points 1 a), b) and c) of Resolution XIV of the 86th Meeting of the Executive Committee. These recommendations had asked PAHO to develop more detailed information on a project that would lead to a new mixed-use building, consisting of office space for PAHO, a small amount of office space which would be rented, and the remainder of condominium apartments, which would be sold.

In addition to the information on the progress made in the area defined in the resolution, the Secretariat presented documents on a new option, with two variations, that would provide a single-use building consisting entirely of offices, including space for PAHO and other space to be rented.

After further discussion and questions directed to the staff of PASB and the consultants present, the Working Group reviewed the options and has decided to recommend to the Director of PASB, for the consideration of the Directing Council, the following:

1. That PAHO construct a new building in place of the Governor Shepherd building, with a reservation of between 60,000 and 80,000 square feet of office space to be used in part by PAHO as needed to supplement its current Headquarters office space, the remainder of the office space to be initially rented in conformity with zoning regulations, and the balance of the building to contain residential apartments which would be sold to offset a substantial portion of the cost of construction;
2. That PAHO be authorized to acquire one or two specific adjacent properties provided that the terms of such acquisition are in the economic interest of PAHO, do not have negative impact on the overall financing arrangements of the project, and ultimately enhance the overall value and use of the proposed building; and

3. That PAHO continue negotiations with foundations, international organizations, other financial institutions including banks, or other sources, in order to develop financing of the project on the best possible terms to PAHO, while ensuring that there is no special assessment on Member Governments nor negative impact on the regular budget or the effective conduct of PAHO program activities, and that the Executive Committee review and approve the final financial arrangements.