DOWNTOWN OFFICE SPACE:
City uses most of its owned space, but lease practices need attention

April 2012

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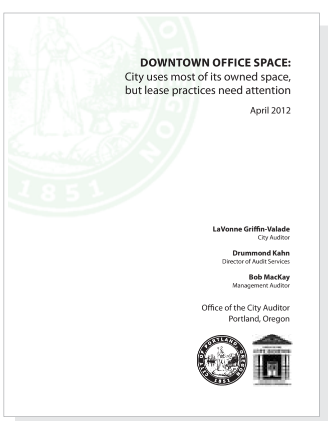
Portland, Oregon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CITY OF PORTLAND

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April 30, 2012

TO: Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman
Jack Graham, Chief Administrative Officer

SUBJECT: Audit Report: *Downtown Office Space: City uses most of its owned space, but lease practices need attention* (Report #417)

The attached report contains the results of our audit of the utilization of the City's owned downtown office space and Facilities Services' management of that space and their lease functions. Our review did not include utilization of special purpose space, such as the Justice Center.

We found that the City currently uses almost all of its owned downtown office space. We also found that even if all of its owned space were fully utilized, the City would still need to lease office space. However, the leasing function is neither formalized, nor does it follow a planned schedule. It also does not always follow City policy. This inconsistency can cost more money and not fully optimize the City's use of the office buildings it owns.

We make recommendations to the Commissioner-in-charge to ask Council to review and strengthen or clarify the existing policies around office space utilization, and have Facilities Services institute some administrative improvements. Mayor Sam Adams and Chief Administrative Officer Jack Graham submitted written responses to this audit. Their responses are included in this report.

As a follow-up to our report, we ask OMF to provide us with a status report in one year detailing steps taken to address the recommendations in this report. The status report should be submitted to the Audit Services Division.

We greatly appreciate the cooperation and assistance we received from OMF staff, as well as staff from other bureaus, as we conducted this audit.

L. Griffin-Valade

LaVonne Griffin-Valade
City Auditor

Audit Team: Drummond Kahn
Bob MacKay

Attachment

Table of Contents

Summary

The City of Portland owns and rents downtown office space to house over 2,200 City employees. We studied the City's utilization of its owned downtown office space and the decisions and processes the City uses to lease space beyond the space it already owns. We conducted this audit because the City has significant investment in downtown office space, and City Council voted unanimously to ensure that this investment is maximized. Leasing, building and owning property involves complex financial transactions which may expose the City to substantial long term risks. Expansion and contraction of City bureaus' office space needs require the City to be dynamic in managing its office space. This underscores the importance of being able to effectively negotiate and manage leases (both external and internal) and for having sufficient information available to make decisions.

The objectives of our audit were to:

- Determine whether the City is using most or all of its owned downtown office space.
- Determine how the City makes decisions to enter into external downtown office space leases, which standards or criteria are used to decide when and where to lease, and the effect the process has on optimizing City-owned office space.

We found that:

- The City is using almost all of the over 590,000 square feet of downtown office space it owns. The 4 percent of vacant City-owned space costs around $800,000 annually. Even if all of the City-owned space were fully utilized, the City would still

need to lease office space. In fiscal year 2010-2011, the City leased 67,000 square feet of private office space for around $1.6 million.

- Although the City has appropriate standards and criteria to administer its leases, the City does not have a formalized lease management function. Further, because the City lacks consistent and comprehensive space planning and because decisions to enter or extend outside leases are driven by individual bureaus, the use of City-owned space is not always optimized.

We make several recommendations for improvement, recognizing that the City uses almost all of the space it owns and currently leases limited amounts of additional space.

Chapter 1 **Background**

Facilities Services' role and responsibility

Facilities Services (Facilities) is a program housed within the City's Office of Management and Finance (OMF). The program is charged with both construction and operation of many City buildings, including the three downtown office buildings – City Hall, The Portland Building, and the 1900 Building. The three City-owned downtown office buildings house multiple bureaus and programs. Costs for these buildings are allocated to tenants on a square foot basis, according to the amount of space they occupy (including a percentage of any common area).

Facilities Services is a working capital fund, which means its revenue comes from rent and from services it provides to other City bureaus. Under City Code, Facilities is authorized to enter into leases on behalf of the City. In this regard, Facilities acts as a service provider/contractor to its client bureaus, which ultimately make the final decisions on lease options. Facilities management sees part of their role as looking out for the City's best interest, which is keeping City-owned property filled.

Policies exist concerning City use of owned and leased office space

The City has two binding policy documents directly related to use of office space (see Appendix). The first, Resolution #36267, adopted by City Council in October 2004, prioritizes the location of City offices. Preference is to be given to City-owned buildings. If there is no available space in City-owned buildings, or if available space cannot meet specific bureau requirements, then bureaus may look for space in buildings in the open market. However, even then, historic buildings must be considered first.

The second, Ordinance #179682, passed unanimously by City Council as an emergency and became effective in October 2005. It specifically directs the Chief Administrative Officer (or designee), to not approve new leases or renew existing leases for non-City-owned facilities unless approved by City Council. This legislation was an effort to ensure investment in City owned property was maximized. It was created in reaction to both the Bureau of Licenses and the Portland Development Commission moving out of the City-owned 1900 Building. It was an effort to make clear that if bureaus have outside leases when there is space in City-owned buildings, then the City is paying twice: once for the external lease and once for the maintenance fund covering the vacant space in the City-owned building.

The general lease process

When more office space is needed – either by growth of a bureau or program, or by City Council creating a need (for example, when the Revenue Bureau was created) – the affected bureau will usually work with Facilities. However, bureaus are not required to, and can work independently. Bureau-initiated leases, however, must be cleared by City Council. Facilities staff estimates they have been involved with 80-90% of the downtown leases for City bureaus.

When a bureau approaches Facilities requesting more office space, Facilities surveys the bureau to determine their needs, and then determines whether reasonable space is available in a City-owned property. If City-owned space is available, Facilities strongly recommends the bureau use it. Sometimes, extenuating circumstances make leased space more appropriate than City-owned space. For instance, in order to avoid making multiple moves in a short time. As an example, the Office of Emergency Management extended their lease in a private building instead of moving into vacant City-owned space, since they will be moving into a newly constructed City building in the near future.

If no City-owned property is available, Facilities will usually contract with a commercial real estate broker to help locate appropriate space. Once space is identified, Facilities makes a recommendation, but the final decision lies with the client bureau. Facilities and the broker negotiate with the landlord to get the most advantageous lease possible for the City.   Once lease documents are signed, Facilities completes all items needed to administer the lease and monitors action dates to keep the bureau aware of when certain activities (like rent increases, or the end of the lease) should be noted.

Facilities staff has experience and knowledge with lease processes, but the City's general lease process and current practices are not formally documented. Without well-documented policies and procedures, a change in staff may result in lost time and knowledge, which could be financially detrimental to the City in its future lease activities.

Costs for rent and external leases

In fiscal year 2010-11, the approximate annual rent charged to bureaus for the over 590,000 square feet of space in the three City-owned downtown office buildings was around $11.7 million. The approximate annual City costs for leasing the 67,000 square feet of private space during the same time was about $1.6 million.

The three City-owned office buildings have different rental rates, based on the following: operations and maintenance; debt service (if outstanding); major maintenance, which funds large maintenance projects; and, an offset for commercial space or parking revenues (if applicable). Rates are then assigned by the proportion of the total space that each bureau occupies.

Figure 1 shows the costs for the different downtown office spaces that City bureaus occupy.

Figure 1 Costs of downtown office space owned and leased by the City

	Rentable sq.ft.	Cost per sq. ft.	Annual Costs*
The Portland Bldg	378,037	$16.34	$6,177,125
1900 Bldg**	143,293	$30.64	$4,390,498
City Hall	71,318	$15.64	$1,115,414
Columbia Square	25,650	$22.72	$582,662
Commonwealth Bldg	20,013	$20.00	$400,260
Pioneer Bldg	9,851	$27.00	$265,977
Harrison Bldg	8,060	$30.98	$249,737
Congress Bldg	3,912	$27.23	$106,536
			$13,288,208

Source: Facilities Space Planning document for Council Worksession 12/2/10

* May not equal rentable sf x cost/sf as some leases include extra fees

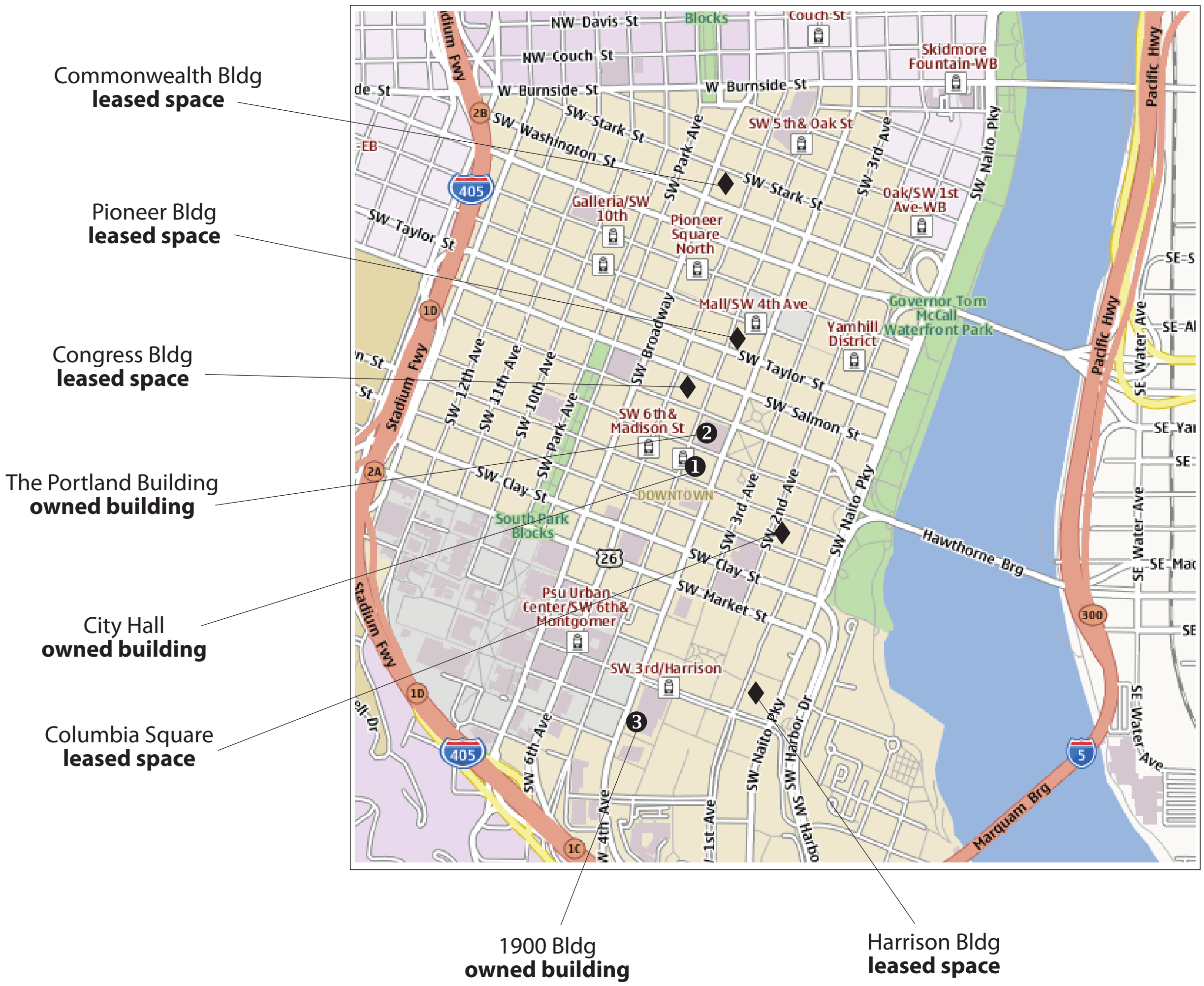
** Includes over $800,000 for vacant space.

Although rent in the 1900 Building is significantly more expensive than rent in either City Hall or The Portland Building, this is mainly due to its continuing debt service. In 2018, when the debt is paid off, the rent at the 1900 Building will drop by around $15 a square foot, essentially cutting the current rent in half.

It is important to note that the City pays for the space it owns, regardless of whether the space is occupied or not. Therefore, the over 26,000 vacant square feet of space in the more expensive 1900 Building costs the City nearly $800,000 annually, which comes out of the buildings' major maintenance fund.

Every time a bureau or division moves – either to a new space in a City-owned building, or into an external-leased space – multiple costs are incurred. Costs can include space planning, project management, tenant improvements (paint, carpeting, changes in layout, etc), and phone and data wiring, as well as the physical move itself. For this reason, external leases are sometimes extended to avoid the costs of a possible double move.

Figure 2 City-owned and leased downtown office space



Source: Facilities Services Division, Audit Services Division and Yahoo Maps

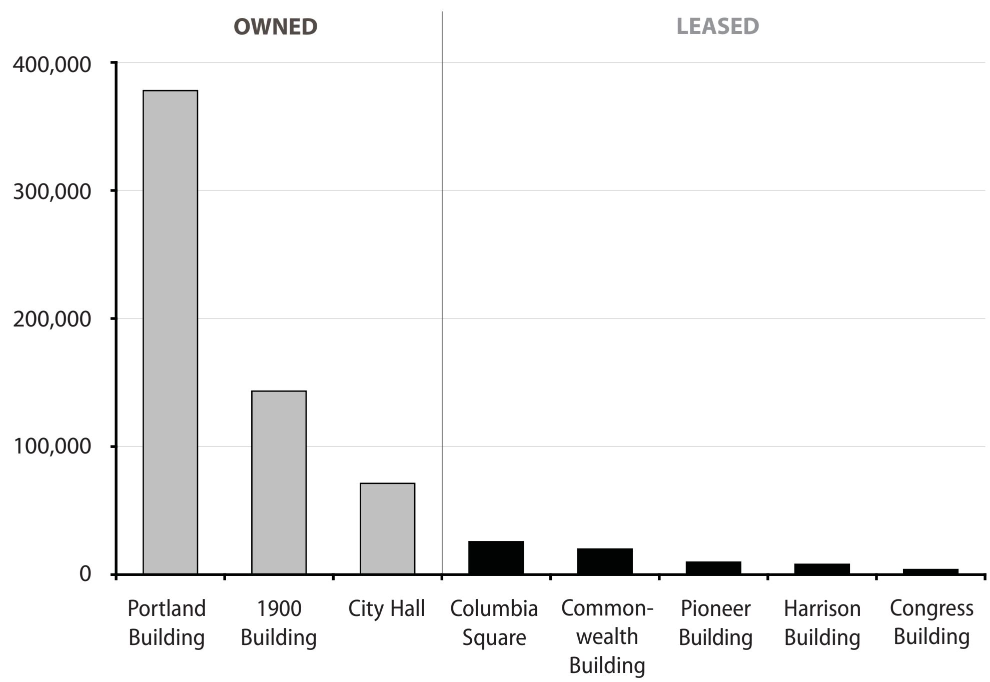
The Portland Building (Audit Services Division photo)

Chapter 2 **Audit Results**

City uses most of its owned downtown office space

As of June 2011, the City owned over 590,000 square feet of downtown office space within three office buildings – City Hall, The Portland Building, and the 1900 Building (special purpose space, like the Justice Center, was not included). There are approximately 26,000 vacant square feet in the 1900 Building, which amounts to a 4 percent vacancy in the City's total downtown, owned office space. The City also leased just over 67,000 square feet of additional downtown office space. Even if all of the City-owned downtown space was fully utilized, the City would still use more space than it owns. Figure 2 displays the amount of downtown office space the City owns and leases.

Figure 2 Square feet of City-owned / leased downtown office space



Source: Facilities Services Division

However, a change in any of the following can alter the picture of office space use dramatically: office building ownership; new office construction; quick bureau expansion or contraction; and political leadership.

Other than the vacant space in the 1900 Building, the other two City-owned buildings are full. Several City bureaus are looking to expand and/or co-locate multiple divisions. Some bureaus' space needs are quite large (Environmental Services is looking for 75,000 square feet) while others are much smaller (the City Attorney is looking for around 3,000 square feet). Facilities is working with City Council on a Space Plan to help reduce the overcrowding and better align City services in existing buildings.

Leasing decisions are driven by individual bureaus, and may not optimize use of City-owned space

Current practices on leasing space in non City-owned buildings is mainly driven by individual bureaus, sometimes at the direction of City Council. Decisions to lease privately-owned office space are made for a variety of reasons: to co-locate City divisions in a single, larger space; to help economically invigorate certain areas of the city; or to match a bureau's specific mission or goals by locating in a certain type of building. While these reasons may be laudable and beneficial to a particular bureau or neighborhood, they do not always optimize the use of City-owned space, and sometimes contradict the Council's existing policies. This often places Facilities in an awkward position due to their conflicting roles of service provider to client bureaus and gatekeeper of City policies not always followed by bureaus or the Council. As it stands, Facilities has no authority to enforce the policy.

Elected officials and City bureaus periodically use standards, criteria and other factors outside the stated policies of prioritizing City-owned space and historic buildings. For example, with the possible sale of the 1900 Building to Portland State University combined with the possible building of the Oregon Sustainability Center, two outside leases were extended while Facilities kept space open in the City-owned 1900 Building, awaiting Council decisions. Following directions beyond the existing Council policies can impact the further utilization of City-owned space. The City's use of its owned office

Figure 3 **Select sequence of space events and effects**

	Event	Effect
1999	1900 Building built to co-locate City's development services	Bureaus who had been leasing able to move back into City-owned Portland Building
2003	Bureau of Licenses anticipates hiring additional staff to process 3 year City/County ITAX	Lease space in Columbia Square Building, resulting in a vacancy in the City-owned 1900 Building which is covered by the building's major maintenance fund
2004	PDC moves to Kalberer Building to provide economic boost to Oldtown/China Town	Increases vacancy in City-owned 1900 Building. Total vacant space costs ~$750,000/yr; external leases cost ~ $850,000/yr.
2004	City Council passes Resolution #36267 prioritizing locating City services in City-owned buildings	
2005	City Council creates Revenue Bureau	Additional space needed to house new staff
2005	City Council passes Ordinance #179682 directing Chief Administrative Officer (or designee), to not approve new leases or renew existing leases for non-City-owned facilities unless approved by City Council	
2006	City Council returns utility billing staff to Water Bureau, who had been slated to be part of new Revenue Bureau	Revenue obligated to pay for extra leased space for 5 years; able to sublet most of the time, but City still pays over $370,000 for 22 months
2009	City Council creates Bureau of Planning and Sustainability	Able to end EcoTrust lease early and co-locate in City-owned 1900 Building
2010	Revenue renegotiates lease in Columbia Square for over 25,000 sf	Contrary to City policy as City-owned 1900 Building has over 26,000 sf vacant space (costing ~ $800,000/yr)
2010	City Council passes resolution committing City to pursue a mutually agreeable partnership with the Oregon University System for the proposed $61.7 million Oregon Sustainability Center (OSC)	Assumes OSC will be built and BPS will be a long term tenant, thus creating more vacancy in City-owned 1900 Building
2011	FPDR renegotiates lease in Harrison Building for 8,060 sf	Contrary to City policy as City-owned 1900 Building has over 26,000 sf vacant space (costing ~ $800,000/yr)

Source: Facilities Services Division and City Policy Documents space is currently high. However, as the multiple options in the current Space Plan show, some upcoming issues may impact this high level of utilization.

It is informative to look at past decisions on office space utilization to see how different scenarios have played out for the City and its bureaus. Figure 3 summarizes some of the major decision points and what effect they had.

Construction of the 1900 Building enabled the consolidation of all City development services functions in City-owned space

In 1997, City Council conceived *Blueprint 2000*, with a goal to "… create a system that presents a predictable, seamless delivery of City development review functions and provides a clear point of accountability for the performance of review responsibilities." This coincided with a downtown space plan which concluded that it was more financially advantageous for the City to own, rather than lease a new space, and that all of the City's development functions should co-locate under one roof. An audit we released in May 1997 also recommended that existing development review staff should be consolidated into a single bureau. As a result of these reports and other analyses, the City built the 1900 Building, which was occupied in 1999 by staff involved in the numerous aspects of development services.

Prior to the construction of the 1900 Building, the City was paying approximately $1.5 million a year on external leases for about 84,000 square feet of space. With staff from multiple bureaus moving in to the new 1900 Building, space was vacated in The Portland Building. At the same time, a number of external leases were coming to a close. The combination of these events allowed City functions that were leasing to move back into City-owned space.

A few years after City bureaus moved into the 1900 Building, two events took place that opened a large amount of space in the building. First, in mid-2003, the (then) Bureau of Licenses assumed responsibility for processing the City/County ITAX, a temporary personal income tax for Multnomah County residents passed by initiative to fund schools, health care, programs for seniors and public safety.

At the time, there was not enough space in City-owned buildings to house the bureau with the additional staff needed to cover this task, so they leased space on the 6th floor of the Columbia Square building.

Second, the Portland Development Commission (PDC) moved to the Kalberer Building in Old Town. PDC was having trouble leasing the building to other tenants after the planned Creative Services Center failed to materialize there. PDC's intent for the move was to provide an economic 'spark' for Old Town/Chinatown. Between these two moves, the 1900 Building had almost 42,000 square feet of vacant space, which was absorbed in the short term by the building's major maintenance fund. The costs of the vacancy came to approximately $750,000 a year; at the same time, costs in external leases were almost $850,000 a year.

In 2005, two important actions resulted from the vacancy in the 1900 Building:

1. City Council passed an ordinance directing the Chief Administrative Officer (or designee) to not approve new leases or renew existing leases for non-City-owned facilities unless approved by Council; and,
2. The City and Portland State University began looking at possibly selling the 1900 Building to the university.

Council action led to extra leased space in Columbia Square
City Council created the Revenue Bureau in October of 2005, consolidating revenue collection efforts from Licenses, Assessment and Liens, and Utilities Customer Services, into one organization. Anticipating a significant increase in staff, the newly created Revenue Bureau signed another lease at Columbia Square to fill the remainder of the 6th floor. A few months after this lease was signed, Council decided to keep a large group of employees at the Water Bureau, rather than transferring them to the Revenue Bureau.

As a result of this decision, the Revenue Bureau was committed to paying for extra space for 5 years. They were able to sub-let the space for a brief time to the Office of Neighborhood Involvement and then for almost 22 months to the Fire Bureau administration while their station was being renovated. According to Facilities' staff, the extra leased space also lay vacant for almost 22 months, at a cost of just over $370,000.

In June 2010, the Revenue Bureau, with the aid of a commercial real estate broker contracted by Facilities, renegotiated their lease in the Columbia Square Building. As part of the negotiation, the City was released from obligations on the extra vacant space as of August, 2010 since the landlord found another tenant.

Even though there was room to house the Revenue Bureau in the 1900 Building at the time, the Columbia Square Building lease was extended for five years because of the continuing push to sell the 1900 Building to Portland State University (which would potentially make the Revenue Bureau move multiple times).   This lease extension was contrary to the 2005 City policy, and will continue to cost the City more.

Council directs some mission moves for select bureaus

City Council created the Office of Sustainable Development (OSD) in August of 2000 by combining the Portland Energy Office and the Solid Waste Division of the Bureau of Environmental Services. At the time OSD was formed, there was room in The Portland Building but the space was on different floors.   There was a desire to co-locate the new bureau together. OSD took a lease in the EcoTrust Building at the request of the Commissioner in charge. This was seen as a 'mission move' since the building was being renovated using sustainable development principles.

The rent on the external lease was higher than they had been paying in The Portland Building. However, OSD was occupying a building that actively demonstrated practices it was encouraging others to adopt. Also, OSD management estimates that by residing in the EcoTrust Building, it helped raise millions of dollars in outside funding for sustainability projects.

In 2009, OSD was combined with the Bureau of Planning to create the Bureau of Planning and Sustainability (BPS), which rendered the EcoTrust Building no longer large enough to house the entire new bureau. BPS was able to get out of their lease at EcoTrust a few months early and move their remaining staff to join the majority of the new bureau in the 1900 Building.

This move also may be temporary. In August 2010, City Council unanimously passed Resolution #36808, committing the City to pursue a mutually agreeable partnership with the Oregon University System for the proposed $61.7 million Oregon Sustainability Center (OSC). The OSC is being designed with a number of goals in mind: to create the world's first high-density, multi-use, net zero energy, water, and wastewater building; to promote and create local green building jobs; and to become a home for sustainability-focused businesses, non-profits, researchers and government entities. To show the City's commitment, Council directed BPS, PDC and OMF to analyze the financial impact of having BPS as a long term tenant of the building.

FPDR lease extended even though there was room in a City-owned building

The Bureau of Fire and Police Disability and Retirement (FPDR) has been housed in the Harrison Square Building since 1995, when they moved from The Portland Building. By 2010, on average, they were paying more per square foot than any other City bureau at almost $31. Their most recent lease was set to expire in July 2012. FPDR wanted to extend their lease and contacted Facilities for assistance. Facilities, with the help of a contracted broker, renegotiated the lease and secured a better rate for FPDR.

At the time, there was adequate space for the bureau in the City-owned 1900 Building. According to Facilities management, however, the FPDR Board Chair decided not to locate in City-owned space. Management also told us there was continued uncertainty surrounding the future ownership of the 1900 Building. Again, as with the Revenue Bureau lease extension, this contradicted the existing binding City policies on office space use.

When bureaus choose to lease over residing in a City building, the money does not go to the upkeep of City assets.

Part of the rent Facilities collects from tenant bureaus in the three City-owned downtown office buildings goes to the major maintenance fund for building upkeep. While the industry standard, and OMF's goal, for facility maintenance is to reinvest three percent of a building's current replacement value each year, OMF is only able to reinvest about 1.7 percent. When the existing policies on City-owned office space are by-passed, and vacancies are created, funds are not generated to keep up the building. Facilities management stated that if the City loses money from vacant space, it comes out of the building's major maintenance account. The building's other tenants do not cover the costs.

City's lease management function lacks formal procedures, but staff demonstrate good practice

Effectively leasing office space is a complex financial transaction which may expose the City to long term risks, yet the City has no official procedures regarding leasing. Facilities staff told us that they have checklists for most lease management processes -- for example, lease amendments, tax exemption status, terminations and completions. During the course of our audit, Facilities set up an electronic file for policy decisions, both internal and external (i.e., decisions from Council). They also told us that they are in the process of developing a checklist for property acquisition and disposition.

Facilities has worked with a draft procedures document for the past 15 years, but has never formally adopted it. However, this effort has provided Facilities with a general policy background that has been used in practice. The language in this document supports City policy and bureau goals with statements such as:

- "The goal is to manage City properties to the highest and best use" and,
- "To manage properties to benefit and support City policies and public purposes and to obtain the greatest benefits and return on City investments."

Facilities staff exhibit good lease management practices in tracking lease documents, using tools like checklists and spreadsheets, utilizing commercial real estate brokers, gaining tax exemptions, etc., but could still improve the formal documentation of these steps in policy and in manuals. Formalizing practices can reduce risk from staff turnover.

City-wide space plans are not conducted on a fixed schedule

Large-scale, City-wide space plans have not been conducted on any formal, fixed schedule. The two major plans in the recent past have centered around assessing the need for and justifying major building construction. Through careful internal and external analyses, options and implications were laid out for Council.

- A 'Six Year Downtown Space Plan' was begun in 1995. As a major part of this plan, two outside consultants produced reports for the City. The two outside plans were used in concert to justify building the 1900 Building and populating it with the City's development bureaus. The first report concluded that it was more financially advantageous for the City to own a new building rather than lease space. The second consultant's report recommended that the bureaus involved in development services should move out of The Portland Building.
- The current Space Plan grew out of a 2010 City Council directive to the Office of Management and Finance to provide information regarding City space planning and facilities needs. The plan outlines a number of options to help address space issues currently facing the City. Since the directive was attached to a Resolution committing City support to the Oregon Sustainability Center (OSC), and moving the Bureau of Planning and Sustainability (BPS) into the proposed new building, all of the options presented are based on the assumption that the OSC will be built and that BPS will be a tenant. This will leave more vacant space in the City-owned 1900 Building.

According to Facilities management, there is currently not a systematic look at space needs/projections across the City, but they told us that it would be beneficial to have a centralized function to achieve this. However, they pointed out this is made difficult due in large measure to Portland's unique form of government.

1900 Building (Audit Services Division photo)

Chapter 3 **Recommendations**

Current leasing practice does not always adhere to existing City policy. This can end up costing the City more money. In order to ensure City-owned space is maximized and City services are housed in the most effective and efficient means possible, we recommend that:

1. **The Commissioner in Charge of OMF should ask Council to review the existing policies on office space and determine if revisions should be made to clarify and/or strengthen the policies.**

   If Council determines to use City-owned and historic buildings first to house City bureaus and services, as current policy requires, it should ensure policies are more strictly followed. This could include giving Facilities Services greater authority for enforcement of policies.

   If Council determines to use other priorities for housing City bureaus and services, it should ensure policies match current practice.

2. **Facilities Services should formalize its lease process. This could include:**

   Writing and adopting a formal policies and procedures manual.

   Creating and following a schedule for conducting a broad office space needs analysis. This could be for five years, but should include an annual review to adjust for any unforeseen contingencies.

City Hall (Audit Services Division photo)

Chapter 4 **Objectives, scope and methodology**

Our audit had two objectives:

1. Determine whether the City is using most or all of its owned downtown office space.
2. Determine how the City makes decisions to enter into external leases in downtown office space, which standards or criteria are used to decide when and where to lease, and what affect the process has on the optimization of City-owned office space.

The scope of our audit focused on owned or leased downtown office space managed by Facilities for City bureaus. Costs and square footage were calculated as of June 1, 2011.

To accomplish these objectives, we:

- Reviewed numerous 'rent rolls', the spreadsheets Facilities uses to track leases, and other documents from Facilities to gather data on office space use.
- Reviewed City Charter and Codes revolving around the lease function/authority and office space utilization.
- Reviewed budget and planning documents for Facilities and other relevant bureaus.
- Interviewed Facilities managers and staff to determine current and past practices.
- Reviewed a sample of lease files, including the lease documents, amendments, extensions, tax exemption and communications.
- Interviewed managers and staff from other bureaus to gain a client's view of the lease process (Bureau of Environmental

Services, the Bureau of Planning and Sustainability, the Revenue Bureau and the Bureau of Development Services).

- Reviewed other office space audits, space plans, and news articles.

We also reviewed two City Council sessions (one was a work session on space planning, 12/02/2010; the other on the Oregon Sustainability Center, 9/21/2011, AM only).

In the downtown City core, the audit included the three City-owned office buildings (City Hall, The Portland Building, and the 1900 Building) as well as City leases in private space identified by Facilities. (see Figure 2) These included the following:

- Columbia Square (Revenue)
- Commonwealth Building (Housing)
- Pioneer Building (Environmental Services)
- Harrison Square Building (Fire and Police Disability and Retirement)
- Congress Building (Emergency Management)

These leases were used in different manners in this report. All were considered for space calculation purposes, with Columbia Square and Harrison Square also used as examples in decision-making. We also included the EcoTrust lease in this regard. It was not included in space calculations as BPS had vacated.

Not included were Bureaus that work separately from Facilities (Parks, Fire, and the Portland Development Commission), non-standard or single-customer City-owned office space (Archives Center and the Justice Center which houses the Police Bureau), and office space located outside of the downtown core.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX

Resolution No. 36267 AS AMENDED

Direct City bureaus to prioritize location of City offices and operations in historic buildings (Resolution)

WHEREAS, City Council, through the *Comprehensive Plan*, enumerates goals and policies that seek to establish and enhance liveable neighborhoods, a strong economy, historic resource protection, citizen involvement, and quality urban design; and

WHEREAS, the *Comprehensive Plan* guides the future development and redevelopment of the City; and

WHEREAS, Chapters 33.445 and 33.846 (Historic Resource Protection Overlay Zone and Historic Reviews, respectively) of the Portland City Code were adopted in 1996 to protect historic resources as directed by the *Comprehensive Plan*; and

WHEREAS, The Historic Resources Code Amendments Project (HRCAP) introduced a number of financial and regulatory incentives that are intended to promote the preservation and rehabilitation of Portland's historic resources; and

WHEREAS, the HRCAP amended the zoning code to require demolition review of historic resources listed in the National Register of Historic Places and resources classified as Contributing in National Register Historic Districts; and

WHEREAS, the City Council is committed to continuing efforts to reaffirm the value of Portland's historic resources and promote their continued vitality and preservation; and

WHEREAS, The City can support historic preservation and lead by example by adopting policies that prioritize historic structures as locations for public services and operations.

NOW, THEREFORE, BE IT RESOLVED that the following City services location preferences will be implemented by the responsible City bureaus and offices:

(a) City-owned or controlled buildings will be given priority for the location of City offices and operations.

(b) If City-owned or controlled buildings do not have available space or cannot meet locational or space requirements, non-City owned buildings may be considered.

(c) When evaluating non-City owned buildings that equally meet locational, cost and space requirements, preference will be given to buildings that are individually listed in the National Register of Historic Places or classified as contributing in National Register Historic Districts.

BE IT FURTHER RESOLVED that this resolution is binding city policy.

Adopted by the Council, October 27, 2004
Mayor Vera Katz / Commissioner Dan Saltzman
Nicholas Starin / Brendan Finn
October 27, 2004

GARY BLACKMER
Auditor of the City of Portland
By /S/ Susan Parsons
Deputy

ORDINANCE No. 179682

* Adopt a policy to maximize the City investment in City owned facilities (Ordinance)

The City of Portland ordains:

Section 1. The Council finds:

1. The City owns and controls various facilities throughout the city.

2. City bureau operations require space to conduct business.

3. The City currently leases or rents space in facilities owned by others to accommodate some bureau space requests and needs.

4. The City desires to maximize its investment in City owned facilities by maintaining full occupancy and providing for City bureau space needs in house.

5. It is in the City's best interest to occupy City owned facilities to the fullest extent possible, and to not lease outside space unless the City bureau space needs cannot be reasonably met, and the outside lease is approved by City Council ordinance.

NOW, THEREFORE, the Council directs:

a. City bureaus shall locate operations in City owned or controlled facilities when these facilities reasonably meet the business needs of the bureau.

b. The Chief Administrative Officer or his designee is directed to not approve new leases or rental agreements or renewal of existing leases or rental agreements for facilities owned by others unless such agreement is approved the City Council.

c. This is a binding policy of the Council and shall be recorded in the City Policy Document.

Section 2. The Council declares that an emergency exists in order to avoid a delay in ensuring investment in City owned property is maximized; therefore, this Ordinance shall be in force and effect from and after its passage by the Council.

Passed by the Council: October 19, 2005

Mayor Tom Potter
Ron Bergman
September 22, 2005

GARY BLACKMER
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RESPONSES TO THE AUDIT

OFFICE OF MAYOR SAM ADAMS
CITY OF PORTLAND

DATE: April 24, 2012

TO: LaVonne Griffin-Valade, City Auditor

FROM: Sam Adams, Mayor

SUBJECT: Audit of Downtown Office Space Lease Functions

Thank you for completing your audit regarding the City of Portland use of downtown office space. I appreciate your work to identify areas to improve the City's administration of policies concerning City use of owned and leased office space. Your recommendations will assist the City in optimizing City-owned office space.

OMF will work with the City Council and City Bureaus to create a City-wide process to ensure full compliance with policies concerning City use of owned and leased office space.

Once again, thank your work regarding this audit.

Sam Adams, Mayor
Jack D. Graham, Chief Administrative Officer
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Portland, Oregon 97204-1912
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CITY OF PORTLAND

OFFICE OF MANAGEMENT AND FINANCE

DATE: April 24, 2012

TO: LaVonne Griffin-Valade, City Auditor

FROM: Jack D. Graham, Chief Administrative Officer jdg

SUBJECT: Audit of Downtown Office Space Lease Functions

Thank you for the Opportunity to review and comment on your audit entitled *Downtown Office Space*. The Office of Management and Finance concur with the findings and recommendations of this audit.

Audit Recommendation 1: The Commissioner in Charge of OMF should ask Council to review the existing policies on office space and determine if revisions should be made to clarify and/or strengthen the policies.
OMF will work with the City Council and City Bureaus to review existing policies and their application on City-wide lease activities, as well as review City operations to assess if current policies meet the needs of the City.

Audit Recommendation 2: Facilities Services should formalize its lease process.
In conjunction with the review of existing policies, OMF will work with the City Council and City Bureaus to develop and document a standard process to ensure compliance with current city policies, provide an annual review, and provide a long range review of the City's space needs.

OMF agrees that existing policy documents, Resolution 36267 and Ordinance 179682, give clear direction for all City Bureaus to utilize City Owned properties prior to outside leases. In an effort to ensure full compliance with these directives, OMF will work with the City Council to create a City-wide process for property management lease review and approval.

We appreciate the Auditor's Office review and recommendations.

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Downtown Office Space: City uses most of its owned space, but lease practices need attention

Report #417, April 2012

Audit Team Members: Bob MacKay

LaVonne Griffin-Valade, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:

PDC Economic Development Loans: Loan programs improved, but tracking major borrowers limited (#419, March 2012)

Portland Development Commission: Financial transaction review reveals areas warranting management attention (#406B, February 2012)

DNA Testing: Turnaround time must improve to meet national guidelines (#427, January 2012)