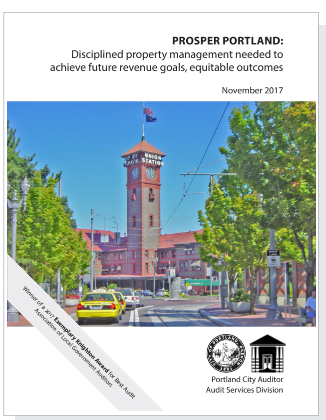
PROSPER PORTLAND:
Disciplined property management needed to achieve future revenue goals, equitable outcomes

November 2017

Winner of a 2017 **Exemplary Knighton Award** for Best Audit
Association of Local Government Auditors

Portland City Auditor
Audit Services Division

Cover Photo
Portland Union Station
by Robert Cowan



Production / Design
Robert Cowan
Public Information Coordinator

Table of Contents

Summary . . . 1

Background . . . 2

Audit Finding: Real Estate Management Activities Not Yet Aligned with Strategic Objective . . . 8

Recommendations: . . . 11

Audit Finding: Limited Monitoring at Third-party Operated Properties . . . 12

Recommendations: . . . 18

Objectives, scope and methodology . . . 19

Responses to the audit . . . 21

PROSPER PORTLAND:

Disciplined property management needed to achieve future revenue goals, equitable outcomes

Summary

Prosper Portland is at a crossroads, transitioning both where its resources come from and who benefits from its work. Real estate will be a major part of that transition.

On the resources side, Prosper Portland anticipated that revenue from real estate would increase from a minor source (about $2 million a year) to the agency's largest source of funding at $16.2 million in 2031.

On the benefits side, Prosper Portland has acknowledged a legacy of gentrification and displacement and committed to alleviating disparities by becoming an agency that prioritizes building an equitable economy.

We reviewed Prosper Portland's real estate management in 2016 to determine if practices aligned with strategic goals and how staff oversaw the day-to-day management of third-party operators.

We found that Prosper Portland was not yet positioned to make its transition. Staff did not:

- create financial and strategic goals for each property and for the portfolio as a whole
- document equity considerations
- perform risk assessments
- adequately monitor third-party operated properties.

To transition successfully, Prosper Portland must improve real estate management.

Background

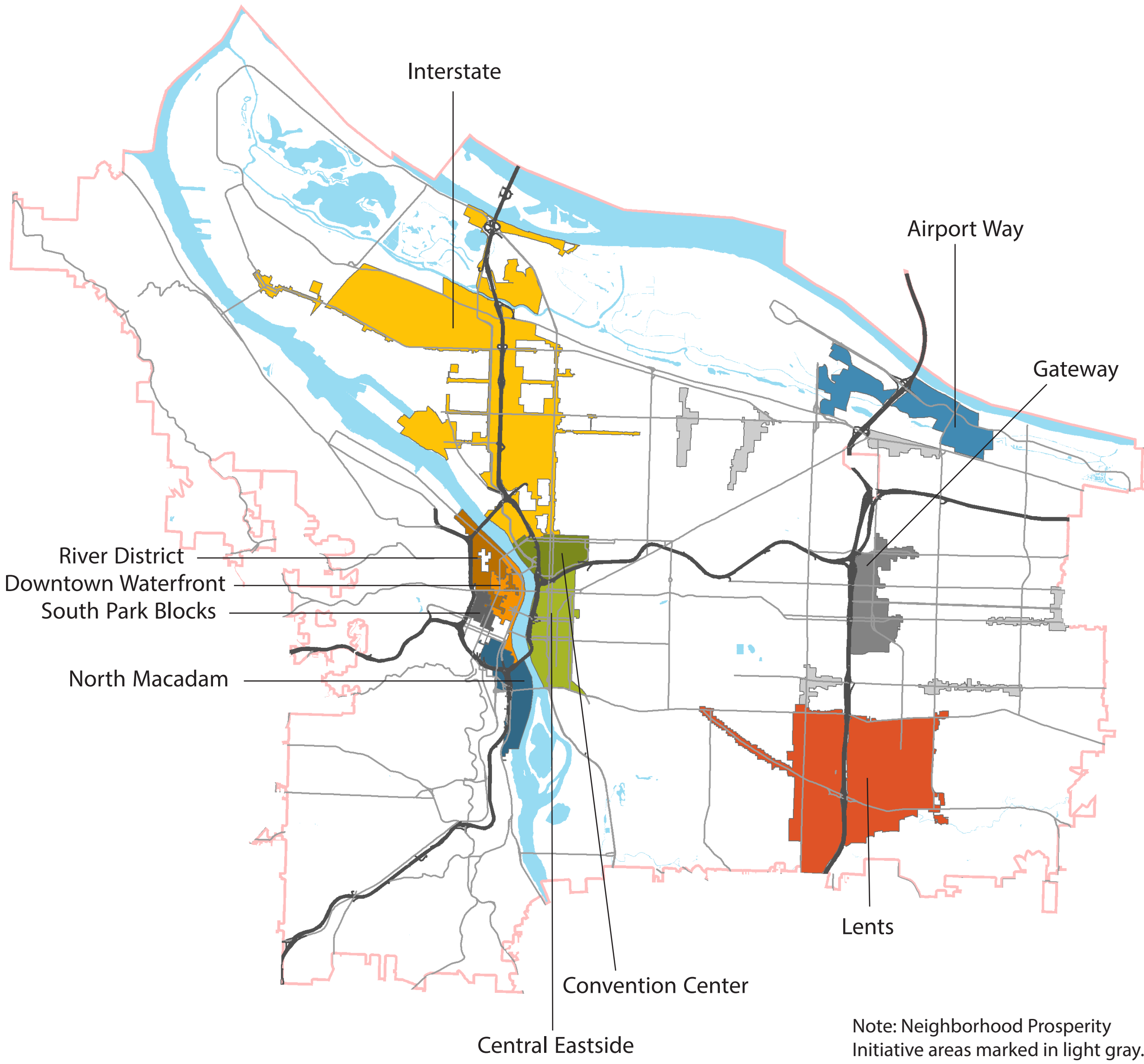
Prosper Portland, formerly known as the Portland Development Commission, is the City's economic and urban development agency. The agency is authorized in the City Charter and is headed by a five-member commission. The agency is leaner than it once was with 95 employee positions in 2016, a decrease from 225 in 2009. The agency expected a major shift in revenue sources away from tax increment financing and changed its name to represent transformation within the agency to address disparities.

Tax increment financing revenue

Prosper Portland was established to allow the City to use a funding mechanism called tax increment financing. To generate tax increment financing, the City established areas for targeted development, called urban renewal areas. The City borrowed funds against anticipated increases in property taxes within the areas and dedicated the funds to improvements within the areas. For a period of 20-25 years any increase in taxes collected that resulted from those improvements and increased property values in the areas was dedicated to repaying those loans. At the end of the period all property taxes collected (including the increase) are returned to the taxing authorities.

In 2016 there were 16 urban renewal areas in Portland, which contributed $15.2 million in tax increment financing revenue to operating expenses. Tax increment financing revenue funded 49 percent of Prosper Portland's operating revenue.

Portland urban renewal areas in 2016

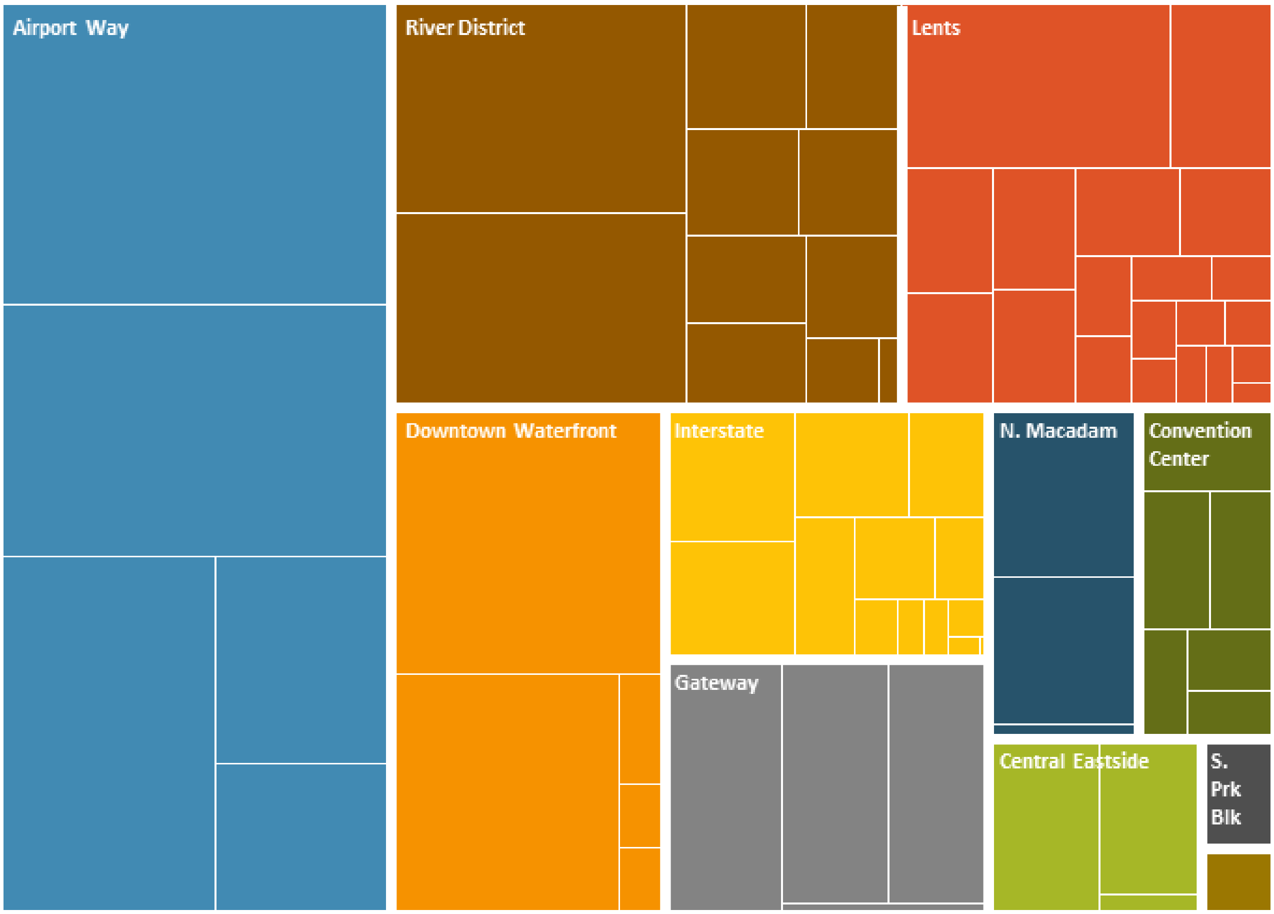


Real estate revenue

The City Charter authorizes Prosper Portland to acquire, improve, and lease property to carry out economic development duties. In 2016 the agency owned or controlled 80 properties, most of which were located in 10 urban renewal areas. Only one property was outside of an urban renewal area. The largest property was in the Airport Way urban renewal area and was over 400,000 square feet. The smallest was 816 square feet in the Interstate urban renewal area. Properties ranged in value from $116,000 to $25.3 million.

Prosper Portland owned or controlled 80 properties in 2016

(shown by urban renewal area, properties are shown with proportional area)



(Click the link below to view a slideshow detailing the property portfolios)
https://www.portlandoregon.gov/auditservices/article/663288

According to the agency, Prosper Portland acquired property mostly through purchase although some were acquired when borrowers defaulted on loans provided by the agency. Goals for each property varied, but all aligned with goals for the urban renewal area in which they were located. Examples of properties included:

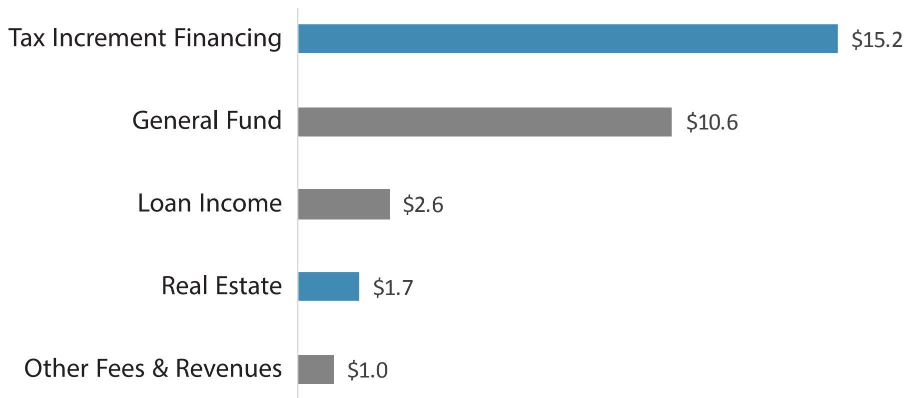
- A series of lots consolidated for an anchor tenant development at Northeast Martin Luther King Boulevard and Alberta Street.
- Parking spaces at Old Town Lofts acquired when a developer defaulted on a loan.

- The Inn at the Convention Center purchased to use the land for a new headquarters hotel at the Convention Center. When plans were finalized for a different location, the agency had to reconsider what to do with the property.
- Properties leased to community groups at sub-market rates including the home of the Belmont Goats and Voz Workers Center.

The properties generated $1.7 million in net revenue in 2016, which was 6 percent of total operating revenue.

In 2016 tax increment financing was a major source of revenue and real estate was a minor source

(shown in millions)

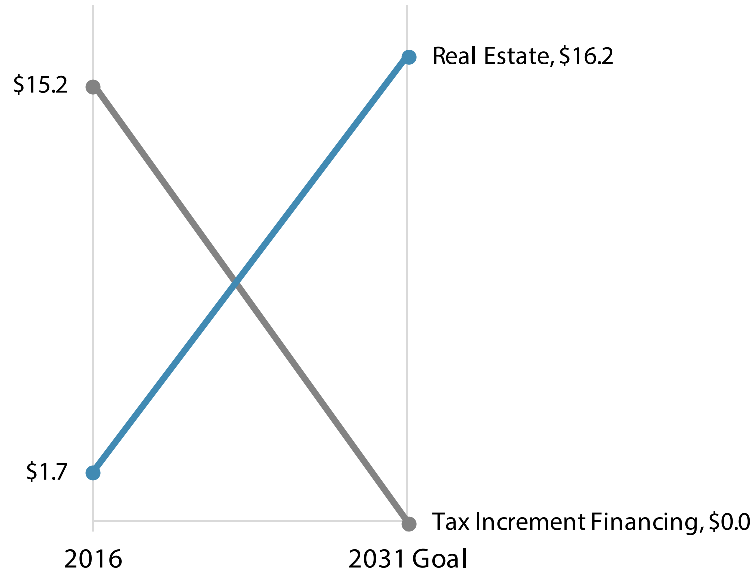


Source: Prosper Portland Budget Office

Shift in resources

Prosper Portland staff created a draft business plan to outline how the agency will compensate for declining tax increment financing. Though the document was still in draft form at the time of this audit, a version was published on the agency's website and staff said the overall financial model remained largely the same as the plan evolved. According to the plan, real estate revenue is intended to be a major part of Prosper Portland's strategy for generating revenue in the future. The agency anticipated that tax increment financing revenue would no longer be available within the next 10 years without further action from City Council. The goal is to generate more than nine times the amount of real estate revenue it currently generates by 2031.

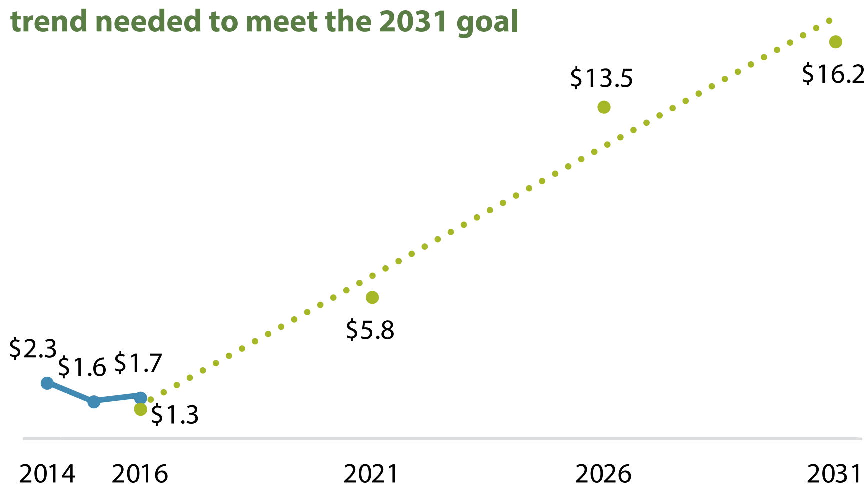
Real estate and tax increment financing revenue in 2016 and 2031



Source: Prosper Portland Budget Office

Prosper Portland's real estate revenue ranged from $2.3 million in 2014 to $1.7 million in 2016. This amount is far below what will be needed to meet the 2031 revenue goals outlined in the draft business plan.

Real estate income in 2014-16 did not maintain the trend needed to meet the 2031 goal



Source: Prosper Portland Budget Office

Shift in who benefits

Prosper Portland uses the definition for equity in the Portland Plan which states "equity is when everyone has access to opportunities necessary to satisfy essential needs, advance their well-being, and achieve their full potential." Prosper Portland has acknowledged an agency legacy of inequity and committed to alleviating disparities between white people and people of color in Portland. In a 2017 message to explain the agency's name change, the executive director said:

> Nearly 60 years ago, the Portland Development Commission was created to take advantage of powerful financial tools allowed by urban renewal legislation. This led to bulldozing neighborhoods with African American, Italian immigrant, and Jewish communities, among others, sometimes with little notice or compensation. The agency carried out these discriminatory practices in the name of progress, and their devastating effects still reverberate today. Decades of pain and mistrust still linger in some communities, a tragic legacy that informs our work today and guides us to our future.

The strategic plan notes that those programs contributed to inequities that survive today and are getting worse. The wage gap between white people and people of color was $3 an hour in 1980 and $5 an hour in 2012. Prosper Portland reports that inequities constrain the ability for companies to grow, limit innovation, and undercut economic growth. To address these inequities, Prosper Portland has committed to transforming into an agency that prioritizes building an equitable economy.

Meeting strategic objectives for financial stability and improved equity will require Prosper Portland to improve real estate management.

Audit Results:

Real estate management activities not yet aligned with strategic objective

For this audit, we assessed how Prosper Portland aligns its management of real property with the objectives in its strategic plan and how it oversees day-to-day operations of properties managed by third parties. We audited real estate management in fiscal year 2016, just as staff were beginning to implement the 2015-2020 strategic plan. At the strategic level, we found that real estate management activities were not yet aligned with objectives because staff had not yet completed actions outlined in the strategic plan.

Strategic objective and actions

Prosper Portland's overarching objective to "operate an equitable, innovative, and financially stable agency" underlies its other strategic objectives. The objective includes financial and equity actions that apply to the real estate management function.

Financial Actions

- Develop and begin implementation of a long-term business plan for the agency that seeks to achieve diversified, balanced, and sustainable funding for Prosper Portland's projects, programs, and operations.
- Implement strategic disposition of Prosper Portland's real estate portfolio to achieve both development and long-term financial sustainability objectives.

Equity Action

- Complete Prosper Portland's transition to an anti-racist multicultural organization through implementation of the equity action plan.

Financial actions mostly in progress

In response to the strategic plan, Prosper Portland began implementing financial actions, but still has more to do. In the summer of 2016, the agency released a draft long-term business plan to define how it will meet financial goals. The business plan calls for staff to identify an expected financial return on investment for the real estate portfolio as well as for individual properties.

Prosper Portland began a comprehensive review of the potential for return for the portfolio of all properties, and staff are still developing potential returns. The draft business plan included an assumption that investments associated with real estate will generate a 6 percent return. According to staff, the expected return was not based on the current real estate portfolio; rather it was a conservative estimate for potential return based on advice from the financial sustainability committee.

Staff did not develop return targets for each individual property. Staff discussed putting properties into categories based on potential financial return or meeting community goals, but this work was not completed at the time of the audit. The financial investment committee could have performed this role. It was responsible for evaluating potential income associated with purchases, sales, and long-term leases. However, staff did not have documentation of financial investment committee reviews for 25 of the 2016 properties, because the agency gained control of the properties prior to the creation of the committee and the policy doesn't cover properties with no pending decisions.

Staff completed the second financial action. The board gave staff direction on which properties it intends to keep and staff began the process of selling the other properties. Prosper Portland sold or intended to sell 30 of the properties it owned in 2016.

Limited action on equity

Prosper Portland prioritized equity in its strategic plan, but that priority was not incorporated into its real estate management activity with documented goals. Prosper Portland did not implement equity plans for real estate management activities and did not document discussions about equity. Prosper Portland procedures required an equity plan to "manage all investments, projects and programs in a manner which considers beneficiaries, addresses disparities, and supports equitable outcomes." Equity plans document consideration of questions such as:

- Who are the historically disadvantaged Portlanders affected by this initiative?
- How will you maximize opportunities and inclusivity for them to participate in or benefit from this initiative?

Staff members said they did not complete equity plans for real estate management decisions because the equity procedure did not apply to real estate decisions and did not name the real estate management function explicitly.

Staff began preparing racial equity impact assessments for some new projects. Only one of the 2016 properties had an assessment.

Summary of status of real estate strategic actions

Complete

Sold or intended to sell 30 properties

Equity impact assessment for one property

In Progress

Released draft long-term business plan in summer of 2016

Reviewing potential return for the portfolio

Developing return targets for each individual property

No Action

No financial investment committee records for nearly a third of the properties (25)

No equity action plans

Past performance shows alignment with objectives is necessary

Prosper Portland's real estate management activities are at a turning point and successful management of real estate will be a major component of its ability to meet future financial goals in an equitable manner. In the past, without financial goals, the real estate portfolio generated less than one-ninth of the revenue required in the future. In the past, without a focus on equity, the agency contributed to gentrification and displaced communities. Without a balanced reflection and intentional actions on equity and financial principles Prosper Portland risks not meeting financial goals or sacrificing equitable outcomes to achieve financial returns.

Recommendations

To ensure that real estate management activity is aligned with Prosper Portland's strategic objectives, Prosper Portland should:

1. Develop strategic purposes for each property and income goals as outlined in the draft business plan.
2. Document equity assessments for each property in the portfolio.
3. Amend the financial investment policy to require the committee to regularly review all real estate holdings for potential financial return, even those without pending decisions.

Audit Results:

Limited monitoring at third-party operated properties

In addition to reviewing how real estate activities complied with strategic objectives, we also observed how staff oversaw day-to-day monitoring of third-party operators at its properties. In 2016 Prosper Portland generated $5.9 million in gross operating income from 26 properties, not including capital income from sales. Income came from the following sources:

2016 Gross income from properties by income source

Income Source		2016 Gross Income ($)	Third-party Operator
Market Rate Agreements	Inn at the Convention Center	2,505,124	Yes
	Union Station	1,350,028	Yes
	Nelson Property	162,639	Yes
	Bakery Block	152,725	Yes
	Argyle Building	124,800	
Parking	Station Place Parking Garage	959,658	Yes
	Riverplace Parking Garage	292,496	Yes
	Block Y	191,826	Yes
	Eastbank Esplanade-Festival Lots	109,172	Yes
Monthly Residential	(one single family house and monthly restricted parking)	27,089	(one)
Use Permits	(events, filming, construction staging, etc.)	13,650	
Billboard Lease	(three properties)	11,400	
Below Market Agreements	Belmont Goats	151	
	Mercado Parking	150	
	MLK Blvd. Solar Charging Station	5	
	Mercado	5	
	Voz Worker Center	1	
	SW 3rd and Oak Development Agreement	1	
	Boys and Girls Club	1	
	Total	5,900,921	

Source: Prosper Portland Real Estate Team and Operator for Union Station

Prosper Portland staff managed the Argyle Building, the monthly restricted parking spaces, single use permits, billboard leases, and below market agreements directly. The agency hired third-party operators to manage the remaining higher income-producing properties as well as the one single family house, which was purchased to consolidate with other properties.

To evaluate Prosper Portland's oversight of third-party operators, we selected the four properties operated by third-parties with the highest assessed value: Bakery Block, Inn at the Convention Center, Station Place Parking Garage, and Union Station.

Sample properties



	Bakery Block	Inn Convention Center	Station Place Garage	Union Station
Use	Mixed Commercial	Hotel	Parking Garage	Train Station
Urban Renewal Area	Lents Town Center	Convention Center	River District	River District
2016 Income (*gross/net)	$150,000/$130,000	$2.5M/$1.0M	$1.0M/$0.7M	$1.4M/$0

*gross and net revenue based on operator reports. Net revenue does not include Prosper Portland labor or expenses. Numbers rounded to $100,000 except Bakery Block rounded to $10,000. Photos courtesy of Audit Services Division, Inn at the Convention Center, and explorethepearl.com.

No risk assessments

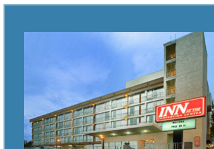
Prosper Portland's oversight of third-party operated properties is guided by the real property management policy. Though it is an industry best practice to conduct a risk assessment prior to using a third-party operator, staff did not conduct formal risk assessments prior to making decisions to use a third-party operator. The real property management policy did not require a risk assessment before outsourcing property management. The policy stated that Prosper Portland would contract with a third-party operator if there were multiple tenants on the site, or if management required on-site staffing or substantial maintenance.

Prosper Portland's 2016 goals for these properties were low risk, therefore a risk assessment may not have seemed necessary. However, as the agency transitions to relying more on real estate revenue, goals and risk profiles for properties will change. Prosper Portland's 2016 financial goals for the properties were limited to covering cost, except for Union Station, where the agency expected to lose money in the short term.

Prosper Portland financial goals for the sample properties were low risk

Bakery Block

Keep tenants and cover costs

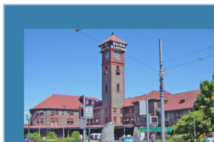


Inn at the Convention Center

Hold until the convention center hotel is developed and make some improvements

Station Place Garage

Provide parking to support retail and residential development



Union Station

Hold for future use as an anchor development and anticipate short term losses

Photos courtesy of Audit Services Division, the Inn at the Convention Center, and explorethepearl.com.

Agreements mostly contained required provisions

The real property management policy stated that agreements with operators should include provisions that addressed budgeting, reporting, protecting physical assets, and other leasing activities. Agreements mostly included provisions required by the policy with the following exceptions:

- The Union Station agreement did not require reporting.
- The Station Place agreement did not require a capital maintenance plan.
- The Inn and the Union Station agreements did not require delinquent collections.

Operator agreements mostly included required provisions

	Bakery Block	Inn	Station Place	Union Station
Budgeting	Good	Good	Good	Good
Reporting	Good	Good	Good	Poor
Protecting Physical Assets	Good	Good	Need Improvement	Good
Maximizing Revenue	Good	Need Improvement	Good	Need Improvement

Good
Need Improvement
Poor

Compliance problems in budgeting, reporting, protecting physical assets, and maximizing revenue

Despite having provisions in agreements, we found compliance problems in budgeting, reporting, protecting physical assets, and maximizing revenue at all four properties:

- Budgets for all properties either did not include enough detail, included inaccurate forecasting, or were not updated. There was no budget for labor at Union Station.
- In all cases, reports were either inadequate, inaccurate, or operator procedures led us to question the validity of operator reports.
- There was not a capital maintenance plan for any of the properties and building conditions limited revenue at the Inn and Union Station.
- We observed opportunities to increase revenue by taking advantage of underused spaces at all properties. At the Inn, the operator's compensation was above market rate. At Station Place, the parking control system that distributes tickets and lifts the gate was not operating at times.

Compliance problems observed at all properties

	Bakery Block	Inn	Station Place	Union Station
Budgeting	Need Improvement	Need Improvement	Need Improvement	Poor
Reporting	Poor	Poor	Poor	Poor
Protecting Physical Assets	Need Improvement	Poor	Need Improvement	Poor
Maximizing Revenue	Need Improvement	Poor	Poor	Need Improvement

Good
Need Improvement
Poor

Limited monitoring

These problems developed because Prosper Portland conducted limited monitoring of the operators. Monitoring consisted of historical comparisons of revenue and expenses and weekly drive-by visits. Staff did not go on-site during weekly visits, which were limited to a physical review of the property exterior unless further investigation was warranted.

Union Station agreement out of date

The agreement to operate Union Station was out of date. The agreement did not require monthly reporting which Prosper Portland would like. Additionally, Prosper Portland did not pay the operator according to the compensation structure outlined in the agreement, according to which the operator should be absorbing some of the management risk and should be compensated with 80 percent of net profit. Instead, both entities treated the arrangement as a time and materials agreement with the operator charging Prosper Portland for materials and labor and Prosper Portland receiving all net profit (after charges).

Inn operator compensation above market

Prosper Portland paid the operator of the Inn at the Convention Center above market compensation because the agency did not use a competitive process to select the operator 15 years ago. Prosper Portland paid more than $600,000 to the operator in 2016 compared to an industry standard rate of $125,000. Staff said the agency did not use a competitive process because the intent was to hold the property as it assembled land for what was to become the Oregon Convention Center hotel. The hotel operator said that initially, Prosper Portland had asked them to "baby sit" the hotel for a few months. Despite the temporary nature of the agreement, Prosper Portland renewed the lease 13 times without significant changes.

No quantification of revenue lost when Station Place parking control system out of service

The operator at Station Place Garage described the parking control system owned by Prosper Portland as "non-serviceable" and "antiquated." When the system was out of service, and there were gaps in revenue reports, neither the operator, nor Prosper Portland staff quantified missing revenue. We observed other security gaps that could allow parkers to use the garage without paying. These gaps present a risk for fraud and we reported these details to management for correction.

Prosper Portland met its goals for these properties, but they did not include ambitious revenue targets. If it wishes to rely on income from these properties to fund agency operations, Prosper Portland will need to increase monitoring to ensure that operators comply with contract provisions.

Recommendations

To maximize revenue from third-party operators, Prosper Portland should:

1. Perform and document risk assessments for each income generating property. Assessments should be aligned with goals for the property and with strategic goals.
2. Develop contract provisions related to budgeting, reporting, and protecting physical assets that reflect the level of risk.
3. Create a monitoring program for each income generating property tailored to contract provisions.

To increase revenue at specific properties, Prosper Portland should:

4. Competitively solicit an operator for the Inn at the Convention Center if Prosper Portland decides to continue ownership.
5. Renegotiate the operating agreement for Union Station to include reporting requirements and a compensation structure.
6. Upgrade the parking control system at Station Place Garage.

Objectives, Scope, and Methodology

Our audit objectives were to determine if Prosper Portland's management of real estate was aligned with strategic goals and whether it received expected income from properties. We focused our audit scope on Prosper Portland's real estate holdings in 2016 and its oversight of four properties operated by third-parties. We excluded properties dedicated to housing, all of which Prosper Portland transferred to the Portland Housing Bureau in 2017.

To accomplish our audit objectives, we:

- Reviewed Prosper Portland policies and procedures, including the strategic plan, the draft long-term business plan, the equity action plan, the real property management policy, and equity procedures
- Relied on Prosper Portland staff calculations for real estate revenue
- Interviewed Prosper Portland management and staff
- Reviewed Prosper Portland's real estate database and reports generated by the Real Estate Team
- Observed staff conduct reviews of the exteriors of properties
- Selected four properties to review in detail. For the sample properties, we
    - Reviewed operator agreements
    - Interviewed operators
    - Toured buildings
    - Reviewed monthly operator reports
    - Observed procedures for preparing reports and reviewed documentation for two sample reports from each operator
    - Relied on third-party auditor verification of Union Station's internal controls for reporting

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.

RESPONSE TO THE AUDIT

PROSPER PORTLAND
Building an Equitable Economy

November 17, 2017

Mary Hull Caballero, City Auditor
Office of the City Auditor
1221 SW 4th Avenue, #140
Portland, OR 97204

Dear Auditor Hull Caballero,

Thank you for the opportunity to review and comment on the audit entitled *Prosper Portland: Disciplined Property Management Needed to Achieve Future Revenue Goals, Equitable Outcomes*, which Prosper Portland requested in order to strengthen the agency's asset management practices and the agency transitions.

Prosper Portland takes its stewardship of public resources seriously and the audit helps identify areas of improvement that would benefit the agency's operations and delivery of services to the public. We appreciate the time and effort invested by your staff, and the thoroughness of the review conducted. In addition, we appreciate the consideration of additional information throughout the audit process and the openness of our dialogue.

Prosper Portland's 2015-2020 Strategic Plan demanded a significant shift in the way the agency approaches its work and achieves its goals. This strategic plan, and the associated draft long-term financial sustainability plan the Prosper Portland Board will consider for approval in early 2018, point toward a fundamental transition in the way that the agency manages its assets and investments over the next decade. Specifically, financial sustainability necessitates moving away from a historical property management (property-level) approach toward an asset management (portfolio-based) approach.

We generally agree with the audit's conclusions and recommendations. The remainder of this letter details several of the actions already under way to address the recommendations and explains how the transition toward portfolio-based asset management will institutionalize the actions recommended in the audit.

To ensure that real estate management activity is aligned with Prosper Portland's strategic objectives, Prosper Portland should:

1. *Develop strategic purposes for each property and income goals as outlined in the draft business plan.*

Since the appointment of a new executive director in August 2016, Prosper Portland has restructured its real estate department and hired three key staff members with the skills and experience required to manage the real estate portfolio to achieve its strategic objectives. In support of the transition toward a portfolio-based approach, Prosper Portland has taken numerous steps to create the infrastructure necessary to manage assets in a manner that is consistent with its strategic, financial and equity goals.

In the last twelve months, the real estate team took on the following steps to evaluate and implement effective asset management infrastructure:

1. In early 2017, staff evaluated the software used to perform property management activities and determined the need for new software. They engaged in market research throughout the spring, solicited a new software vendor through a competitive Request for Proposal (RFP) process in June, and signed a contract with Yardi Systems at the end of October. Full implementation of Yardi Voyager 7S with the Advanced Budgeting and Forecasting module (Yardi) is projected by the end of the fiscal year. The new software will allow staff to perform higher-level analyses, automate functions to reduce user error, increase efficiency, and generate customized reports for leadership, all of which will result in better decision making and fiscal stewardship.

2. Staff undertook a wholesale review of the agency's real estate policies and procedures, including real property management, acquisition, disposition, and valuation, to ensure that they reflect not only the strategic, equity and financial sustainability plans but also that they represent acceptable market and community standards. Staff will present revised policies and procedures to the Board of Commissioners for approval in 2018. Once approved, revised policies will be the basis on which existing and future assets will be formally evaluated.

3. Staff established a portfolio target return working with the Financial Sustainability Committee (FSC) in Fiscal Year 2016/2017. This return has been refined over the past year based on feedback from individual FSC members and, more recently, the new Development and Investment Department director and managers. With the implementation of Yardi, the portfolio return will be tracked and reported to Prosper Portland leadership and the Board on a regular basis.

4. Staff has also identified process improvement opportunities with respect to budgeting and forecasting and has been working with the accounting department to redesign the process for real estate budget tracking and property management. The result will be practices which align with market standards, more detailed accounting and clearly defined metrics against which staff can assess performance.

By the end of Fiscal Year 2017/18, the above evaluation and procedure improvements will be implemented through individual property plans. Each property plan will act as a roadmap for that property and will outline basic data (asset class, year acquired, square footage, etc.), set its strategic purpose (as dictated by URA action plan, strategic plan, etc.), and document financial return expectations, capital budgeting priorities and leasing strategy.

2. *Document equity assessments for each property in the portfolio.*

The individual property plans referenced above will include specific language pertaining to the steps by which the equity plan will be achieved across each property in the portfolio. Specific emphasis will be on opportunities for expanding vendor contracting opportunities to MWESB-certified businesses and leasing opportunities for businesses owned by people of color and those middle-wage employment opportunities.

3. *Amend the financial investment policy to require the committee to regularly review all real estate holdings for potential financial return, even those without pending decisions.*

Once Yardi is fully implemented, Prosper Portland staff will provide regular reports to the Leadership Team as well as annual reports to the Board concurrent with the budget approval process.

To maximize revenue from third-party operators, Prosper Portland should:

1. *Perform and document risk assessments for each income-generating property. Assessments should be aligned with goals for the property and with strategic goals.*

We agree that a documented risk assessment should be performed for each income-generating property. Risk assessment will be included in the updated real estate policies and procedures and will consider an array of risks to include property management, physical asset condition for safety and tenanting as well as market risks dependent on the strategic goals outlined in the individual property plans associated with each property as discussed above.

2. *Develop contract provisions related to budgeting, reporting and protecting physical assets that reflect the level of risk.*

Staff has begun to create property-level capital budgets for Prosper Portland's real assets. This process may include, if necessary, engaging a third-party consultant via competitive RFP. Once the capital budgets are in place, they will be included in each contract signed with third-party property managers and monitored accordingly. Staff is also in the process of reviewing existing agreements to make sure they contain sufficient provisions for budgeting, reporting and protecting physical assets, and will ensure that all future agreements signed with third parties contain appropriate provisions that reflect the level of associated risk.

3. *Create a monitoring program for each income generating property tailored to contract provisions.*

With the implementation of Yardi, Prosper Portland will be able to more closely track each property's performance and budgeting needs. This increased efficiency and granularity of data will allow staff to more closely and routinely monitor the assets' physical and financial condition and to more consistently interface with third-party management to ensure compliance with contract requirements as well as strategic and financial goals.

To increase revenue at specific properties, Prosper Portland should:

4. *Competitively solicit an operator for the Inn at the Convention Center (ICC) if Prosper Portland decides to continue ownership.*

In March 2017, the asset management team evaluated the ICC operator agreement and, as a result, issued a RFP in July to engage the services of a hotel asset management firm to provide the technical skill and industry depth necessary to evaluate the hotel in support of the 2020 Strategic Plan, Financial Sustainability Plan and Oregon Convention Center community framework plan. Pinnacle Advisory Group, a nationally recognized firm with deep experience in hotel management, was awarded the contract and began its engagement in November.

This firm will evaluate the existing operating agreement and present Prosper Portland with a white paper outlining multiple options for hotel operations moving forward. The result of this work will enable Prosper Portland to issue a competitive RFP for hotel operations in 2018.

5. *Renegotiate the operating agreement for Union Station to include reporting requirements and a compensation structure.*

A comprehensive review of the operations of Union Station is currently under way by Prosper Portland staff to determine a framework for updating the operations of the train station to a contemporary standard. The current agreement with OMF will be terminated, and a new operating agreement will be put into place. Given the many parties involved in the operations of the Station (OMF, TriMet, Amtrak, Police Bureau, Transit Police etc.) Asset Management staff intend to develop a property stewardship plan that focuses on assessments and upgrades of life safety systems, security, a prioritized schedule of repairs and costs associated with changes anticipated by this review. This review shall be completed by May of 2018, after which Prosper Portland will develop a new operating agreement for Union Station to explicitly state property management reporting requirements and structure the compensation structure to align with industry standards and responsible financial stewardship.

6. *Upgrade the parking control system at Station Place Garage.*

Upgrading the parking control system at Station Place Garage is a high priority. Prosper Portland staff are finalizing a RFP to competitively bid for parking management services which consolidates management of all of the agency-owned parking garages, in order to control costs and increase efficiencies. Staff plans to issue the RFP by the end of the calendar year.

Ultimately, Prosper Portland requested this audit to both manage its transition and guide and inform the steps necessary to ensure that as a key agency it continues to achieve the City's goals around economic development and equity. On behalf of the Prosper Portland Audit committee, please extend our thanks and appreciation to the Audit Services staff for their effort on this audit.

Sincerely,

Mayor Ted Wheeler
City of Portland

Kimberly Branam
Executive Director
Prosper Portland

CC: Prosper Portland Audit Committee

Audit Services Division
Office of the City Auditor
1221 SW 4th Avenue, Room 310
Portland, Oregon 97204
503-823-4005
www.portlandoregon.gov/auditservices

Prosper Portland: Disciplined property management needed to achieve future revenue goals, equitable outcomes

Report #498, November 28, 2017

Audit Team: Elizabeth Pape, Tenzin Gonta, Minh Dan Vuong

Mary Hull Caballero, City Auditor
Kari Guy, Interim Director of Audit Services

Other recent audit reports:

Utility Payment Assistance: Program improvements would enable City to assist more customers (#478, October 2017)

Tree Code: Implementation phase shows progress and pitfalls (#495, September 2017)

Risk Management: City loss prevention needs a proactive approach (#493, June 2017)