

IMPACT STATEMENT

Legislation title: Direct the Office of Management and Finance (OMF) to implement the space optimization proposal for the Portland Building and work with PDC to implement a financing and occupancy plan for the Jasmine Block project with PSU. (Resolution)

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Purpose of proposed legislation and background information:**Purpose of resolution**

This resolution directs the Office of Management and Finance (OMF) to implement a plan for space optimization of the Portland Building; directs OMF to work with PDC and PSU to continue pursuit of the Jasmine Block project and develop a financing plan to fund a City-owned share of the project; and, work with City bureaus to determine the best use of the City-owned portion of the building.

Space optimization plan

The space optimization plan is the best long-term solution for accommodating future City employee growth and for reducing the need for multiple out-leased spaces that currently house bureaus that do not fit into current City-owned facilities in the downtown core.

On October 15, 2015, City Council passed Resolution #37158, which directed OMF to reconstruct the building, for the existing 1,332 employees, with a budget not to exceed \$195 million and to be completed by the end of 2020.

With the reconstruction of the Portland Building, and through proper design and new, flexible furnishings, it has been identified that, once reconstructed, the building can accommodate approximately 412 more employees beyond the current 1,332 that are located within the building.

By moving forward with optimizing space in the Portland Building, the City will realize significant long-term cost savings. The City will also be able to provide downtown office space needed for growth of City employees and/or reduce costs of external leases by bringing employees into the Portland Building from locations scattered throughout downtown. These changes will make the most efficient use of space in the reconstructed Portland Building and realize additional savings in the reduction of move costs over time, flexibility between bureau spaces, and improved access to daylight and ergonomics for our employees.

Investing in the space optimization program has tangible financial and economic benefits, allowing the City to leverage the Portland Building Reconstruction Project to address longer term space needs in the most cost-effective manner. It also provides less-tangible, but no less real, benefits for collaboration and coordination amongst bureaus and employees who will work in the building.

Financial Impact

The costs for the space optimization proposal are as follows:

Item	Description	Cost Estimate (2017 dollars)
New Furnishings	New furnishings for Portland Building for optimized tenancy (approximately 1744)	\$11,708,000
Build out of shell for 2.5 floor	In order to accommodate future growth of employees, build out the core and shell to create warm lit spaces for additional employees beyond the current 1,332.	\$7,100,000
Citywide study	Citywide study to determine the tenancies for the Portland Building, the 1900 Building and the Jasmine Block Building	\$50,000
Total		\$18,858,000

The proposed financing plan is to debt finance the costs over seven years. Debt service would be funded by Water and BES for their shares and the share for other tenants would be included in the blended downtown office space rental rates.

BES annual debt service	\$647,595
Water annual debt service	\$521,783
Blended downtown office space rental rates pool	\$1,800,727

Economic analysis

If the City does this project, then \$1,193,484 of lease expenses paid to private landlords for space occupied by the Bureau of Environmental Services, Portland Housing Bureau, the Office of Equity and Human Rights, and Fire and Police Disability and Retirement would go away in FY 2020-21. This partially offsets the increase in the blended downtown office space rates cost pool for debt service.

In addition, this project will allow the City to avoid a number of costs in the future.

This includes obtaining space to accommodate the projected growth of 220 employees who would need office space in the downtown core. To address this office space need the City would have to lease space from a private landlord, or construct office space. Both of these options have large ongoing costs and are detailed below:

Lease Option	
Projected growth of bureau staff for bureaus currently housed in the Portland Building by 2025	220
Square feet needed for projected growth of bureau staff	47,855
<i>Ongoing annual lease cost avoided</i>	<i>\$1,531,360</i>
<i>One-time furniture and tenant improvement costs for leased space avoided</i>	<i>\$9,968,208</i>
Construction/Ownership Option	
One-time purchase of square footage needed at \$500/square foot	\$23,927,500
One-time purchase of furnishings, equipment, and technology to support new space	\$880,000
Costs of issuance for debt financing	\$496,150
Total	\$25,303,650
Annual debt service on purchased space (for 20 years)	\$2,030,403
Ongoing annual operations and maintenance at \$18.48/square foot	\$884,360
<i>Annual ownership cost avoided</i>	<i>\$2,914,763</i>

A net present value analysis of the information above shows that over 20 years, if the City does the project, it will save \$32 million compared to not doing the project. For this analysis the option of leasing space for growth staff was selected. If the option of constructing space for growth staff is selected, the savings increases to \$29.7 million.

Impact on blended downtown office rates and budgets in FY 2020-21

If the proposal is approved, the blended downtown office rates cost pool would increase by \$1,776,621 and the rate would increase from \$36.20/square foot to \$39.03. The General Fund, which originally built \$2.575 million into its financial forecast for the impact of going to the blended rates model in FY 2020-21, would see costs rise by \$750,000.

Other Considerations

The analysis includes a number of assumptions. A sensitivity analysis was performed to test that even if actual results are different than the assumptions made that cost savings would still come to the City. Key assumptions tested were constructions costs and salvage values for growth space, external lease rates for growth space, cost of furniture and tenant improvements for growth employees in external leased space, and the number of growth employees. In all cases savings significant cost savings would still come to the City. The only assumption that had any impact on the results was assuming growth of

employees at 50% of the assumption in the proposal. This still had the proposal saving the City \$15 million over 20 years.

The space optimization proposal has been reviewed by internal partners to confirm that the approaches and techniques for the financial, economic, and budget impact analyzes were sound and that the assumptions are reasonable. A similar review is planned with external partners.

While developing the above proposal, staff analyzed the impact of a phased approach where furniture for some growth employees and bringing in employees from leased space was delayed until after the reconstruction project is complete. The result was that since external lease costs would continue until the bureaus moved in the costs savings to the City would be reduced.

Staff will continue to explore the sale of FAR from City Hall and the Portland Building. The sale of the FAR is susceptible to market rates and fluctuations and may not be substantial enough to offset costs for this proposal.

Jasmine Block

The financing plan for the Jasmine Block will include financial and economic analyzes, and the analysis of the impact on blended downtown office rental rates and bureau budgets.

Community impacts and community involvement:

Potential Impacts and involvement

Investing in the space optimization program has tangible financial and economic benefits, allowing the City to leverage the Portland Building Reconstruction Project to address longer term space needs in the most cost-effective manner. It also provides less-tangible, but no less real, benefits for collaboration and coordination amongst bureaus and employees who will work in the building.

Community Input

As part of the Portland Building Reconstruction Project, the Project team will continue to engage employees and bureaus in designing a building that will meet needs now and well into the future. The new building will continue its public first customer service approach, provide flexibility and adaptability of use over time, and support employee wellness and well-being through maximizing light and air. The project will continue to complete all scope requirements set forth at the outset of the project including remedying the envelope, replacing systems, upgrading the seismic and improving the interiors, and moving existing employees out, housing them during the interim, and moving them back in to accommodate construction. This will all be done following the Green Building Policy, including LEED certification, and meeting our social equity goals.

Budgetary Impact Worksheet**Does this action change appropriations?**☐ **YES:** Please complete the information below.☒ **NO:** Skip this section

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Sponsored Program	Amount