

PORTLAND BUILDING FOLLOW-UP:

Greater public transparency needed
about project costs, trade-offs, and
missed equity requirement

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PORTLAND
CITY AUDITOR
Audit Services



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Portland Building Follow-up:

Greater public transparency needed about project costs, trade-offs, and missed equity requirement

Summary The Portland Building is an active construction site and the renovation is forecasted to be completed ahead of schedule. The City decided to renovate versus demolish and rebuild the iconic structure and set a budget of \$195 million for the project. We identified risk areas during the project's initial phase, and this report follows up on the recommendations from that audit.

We found these issues have not been resolved.

	<i>2016 Recommendations</i>	<i>2019 Status</i>
 In Process	Present budget information for public transparency	Budget transparency still needed as costs for Portland Building grew to \$214 million, 10 percent more than planned \$195 million
	Ensure timely, effective and inclusive decisions will be made by key milestones	City on track to meet minimum requirements, but there have been no reports on trade-offs that affected other opportunities
 Not Implemented	Develop an implementation plan and schedule for the adopted community benefits	City missed requirement to disburse about \$1 million in grants to help meet equity goals

We make new recommendations to address remaining risks with the City's compliance with Americans with Disabilities Act and historic preservation requirements, as well as implementation of community benefits. We will follow up on these in addition to the original budget transparency recommendation in one year.

Our office has also begun an audit of the construction contract and will report results later this year.

Audit Results Budget transparency still needed as costs for Portland Building grew to \$214 million, 10 percent more than planned \$195 million

Background City Council authorized the Portland Building renovation in 2015 using a generic description of “design, re-location, reconstruction, and project management” activities, with a \$195 million budget and a 2020 deadline for completion. Our 2016 audit found that the Office of Management and Finance project team presented Portland Building budgets in a way that made it difficult to trace back to earlier cost estimates and scope commitments, and recommended that the project team present budget information with greater specificity to allow for public transparency.

Update While the public narrative about the Portland Building focused on activities tied to the \$195 million budget, this does not include components critical to delivering a functional building. Starting in December 2016, the project team began excluding some elements from the project scope to stay within its \$195 million budget. These exclusions included furnishings, technology equipment, as well as tenant improvements for parts of the building that would otherwise be left unfinished – two and a half floors of offices, and the childcare center on the first floor (see Figure 1).

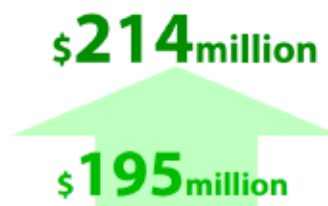


Figure 1. Approved or anticipated buildouts that are not part of the \$195 million budget

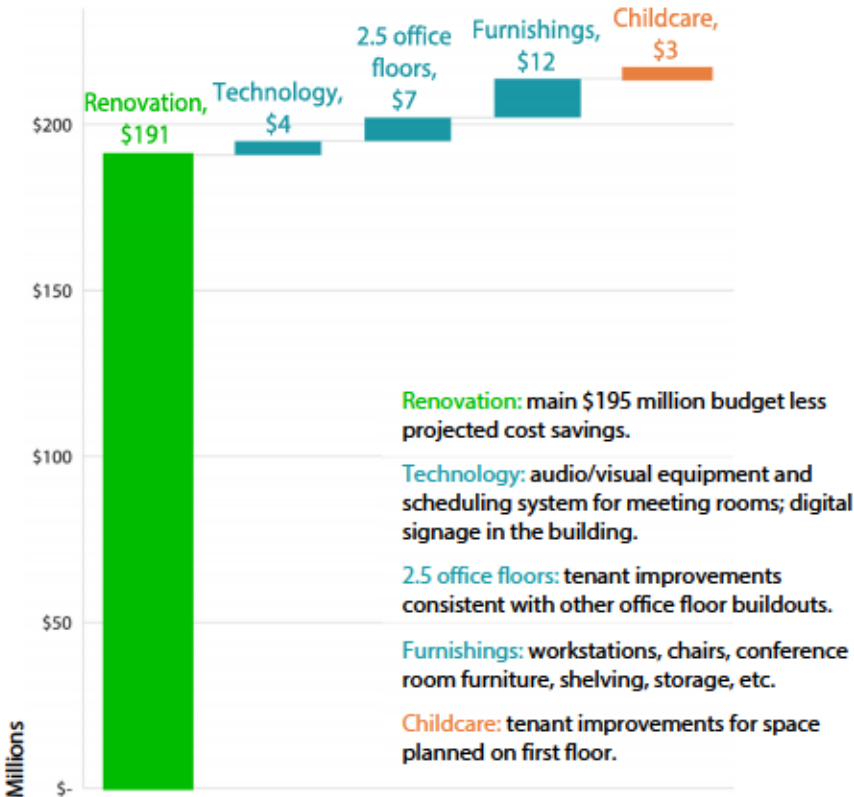


Source: Audit Services analysis of project records

The project team began in March 2017 to request new funding to add back these exclusions as projects separate from the main \$195 million renovation project. The project team states there are benefits to overall City operations as a result. The City Budget Office raised concerns about these “spin-off projects” in its annual budget analyses. Over the years, the project team has been transparent about each individual budget request, but there has been no presentation of the collective Portland Building costs that result from these piecemeal decisions. As a result, budgets the project team presented to Council and the Portland Building Community Oversight Committee did not include the entire work managed by the City or its contractors.

The final costs for the Portland Building are not yet known. The City’s official bond statement from November 2018 projected costs to \$225 million. Less financing costs of \$11 million, that relates back to \$214 million of Portland Building activity (see green and blue items in Figure 2). At that time, the project team estimated savings from the main \$195 million renovation budget, and dedicated about \$4.2 million of those funds to address part of the building’s technology needs after Council did not approve the separate budget request proposed in September 2018.

Figure 2. Main renovation project along with other significant project costs (approved and anticipated) at end of 2018



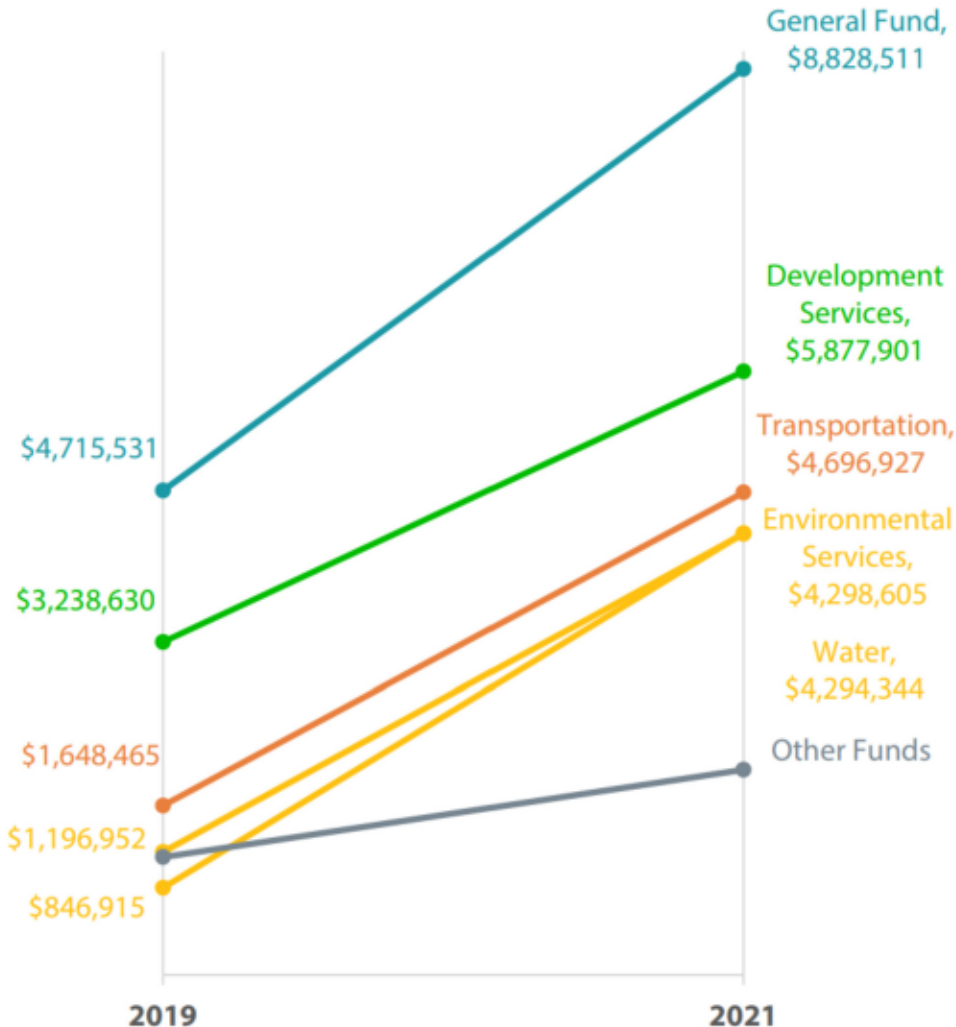
Source: Audit Services compilation of City project records and staff communications

These projected costs from the bond statement don't include at least one more area anticipated by the project team that has yet to be authorized by Council – the buildout for a childcare center (see orange item in Figure 2). Council approved \$217,000 for design and permitting costs and, at the end of 2018, the project team planned to request \$2.7 million for construction as part of this year's budget proposal. It is not clear how this space on the building's first floor would be used should Council not approve construction.

These projected costs also do not reflect additional side projects prompted by the Portland Building renovation. When Council first authorized the renovation some items, such as the relocation of the existing childcare center and data center, were funded outside of the \$195 million budget. There also will be projects that address additional ways the building will be used and changes to ongoing operations and maintenance costs once the renovated building is occupied.

The final costs will be allocated to tenant bureaus and, ultimately, will have a long-term effect on the City's capacity for direct services to residents. The financial impact to bureaus was first quantified in December 2018 as part of internal preparations for this year's budget discussions. While the City is implementing uniform tenant rates for all of its downtown office spaces with adjustments to allow for utility bureaus to directly pay for their share of costs using ratepayer dollars, the Portland Building is the primary cost driver (86 percent). Average square footage costs will go up 102 percent – from \$21.27 for Fiscal Year 2018-2019 to \$43.03 for Fiscal Year 2020-2021. About one quarter of increased costs will be borne by the General Fund, with Transportation, Development Services and Utility funds responsible for most of the remainder (see Figure 3).

Figure 3.
Renovation drives
increased downtown
tenant costs for the
General,
Development Services,
Transportation,
and Utility funds



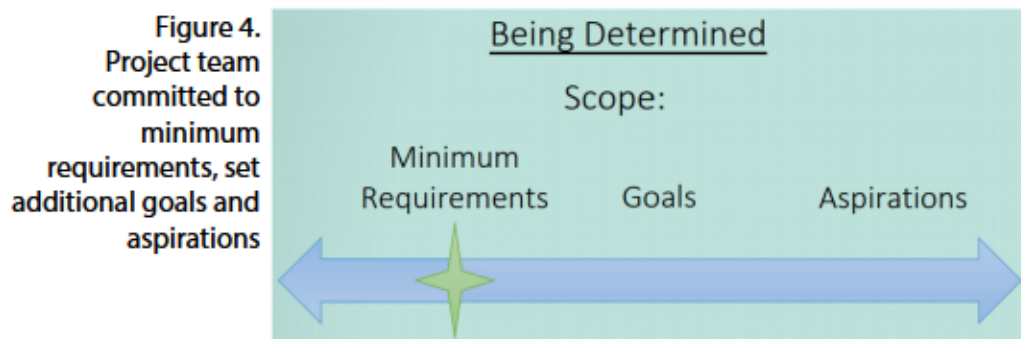
Source: City records on downtown office space costs by fund and adjustments to account for utility bureau-direct costs based on communications with project staff

Recommendations

1. Our audit recommendation for budget transparency remains relevant for the remainder of the City’s Portland Building work. Given the significance of the side projects described in our audit, we further recommend the Chief Administrative Officer describe this collective Portland Building activity when presenting budget-to-actual reports to Council and Oversight Committee.

Audit Results City on track to meet minimum requirements, but there have been no reports on trade-offs that affected other opportunities

Background To meet the \$195 million budget limit, the project team prioritized scope flexibility. In a presentation to Council, the team identified the minimum requirements it would achieve, as well as broader goals and aspirations to exceed those minimums (see Figure 4).



Source: Excerpt from project team's July 2016 presentation to Council

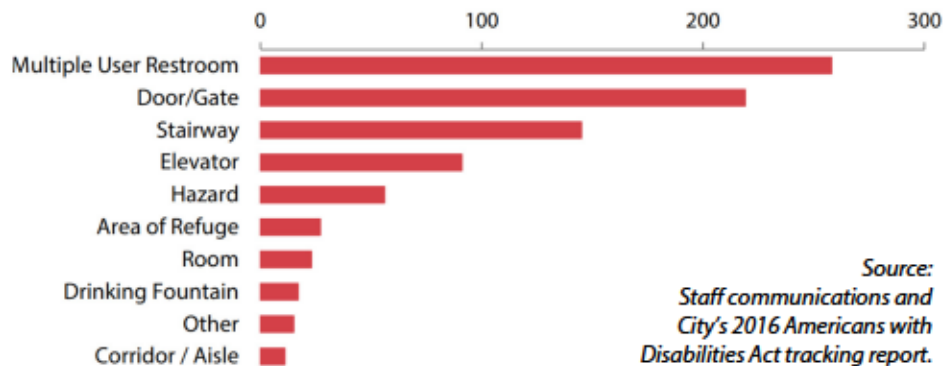
The 2016 audit identified a risk that the project team did not have a structured way to prioritize work beyond the minimum requirements or to evaluate and communicate trade-offs that may be needed. The audit recommended that the project team ensure timely, effective and inclusive decisions through a structured decision-making approach.

Update The City is on track to meet minimum requirements – for example, to eliminate water intrusion, upgrade seismic performance to be consistent with a new building, and replace most building systems, such as for heating and cooling. The project team communicated this information at Council and Oversight Committee meetings. However, with the exception of the piecemeal budget proposals described earlier, there were no similar discussions about the status of project team’s attempts to reach beyond the minimum requirements and how the options were prioritized.

The following three examples illustrate where decisions may affect achievement of renovation expectations and anticipated benefits. There was no record that identified the consideration of trade-offs or ramifications.

Accessibility: The project charter identified a minimum requirement to “upgrade accessibility” and an aspirational goal of “following Universal Design practices” which strives to produce buildings that are inherently accessible by all. The City in 2016 reported more than 800 unaddressed accessibility barriers in the building (see Figure 5). The City project team states that most barriers will be addressed as part of the renovation. However, the renovation does not address all components of the building. For example, the City is keeping existing stair structures and will address barriers with the stair rail systems but not horizontal distances or vertical heights of the stairways. The project team did not report this to Council or the Oversight Committee and has yet to request a City exception to the Americans with Disabilities Act or quantify the number of previously inventoried barriers that will exist after renovation. Inspections during construction will be critical to ensure no new barriers are inadvertently constructed.

Figure 5. Accessibility: City anticipates most previously inventoried barriers addressed, but has yet to quantify those that will remain



Note: In response to audit, project team noted that remaining barriers likely in stairway, elevators, and hazard categories

Sustainability: The project charter identified a minimum requirement to achieve Leadership in Energy & Environmental Design (LEED) certification at the Gold Level and also described “an opportunity to... ensure the City’s Green Building Policy is appropriately applied to the project.” Presentations to Council and the Oversight Committee have focused on tracking LEED Gold and the project team’s pursuit of a new, optional WELL Building certification – a standard focused on the health and wellness of the people in buildings – not required by City policy. There were no similar presentations when the City pursued policy exemptions to its Green Building requirements (see Figure 6). In two instances we found no evidence of how a decision was made. Staff reports to the Oversight Committee stated the project is on track to meet or exceed Green Building policy requirements.

Figure 6.
Sustainability: LEED
and Bicycle Parking
prioritized within Green
Building policy

Key requirements	Status
Bicycle Parking	On track
Bird-Friendly	City-approved exemption
Ecoroof	City-approved exemption
Green technology	City determined not appropriate
LEED	On track for Gold
Salmon Safe	Unknown - no records found
Space allocation	Unknown - no records found

Source: Audit Services analysis of available project records

Historic Preservation: Retaining the historic status of the Portland Building was one of the reasons the City pursued renovation over other options, such as selling and buying elsewhere, or demolishing and building new. The building is listed on the National Register of Historic Places because of architect Michael Graves’ award-winning Post Modernism design.

Despite the importance of historic preservation, there was no minimum requirement identified for this project principle. The project team identified an aspirational goal and anticipated benefit to “maintain the historic and iconic status of the building.”

As a part of the local Historic Landmarks Commission reviews in June 2017, the National Parks Service and the State Historic Preservation Office alerted the City that it would remove the Portland Building from the register if the City pursued the proposed exterior design to address water leaks (see Figure 7). This design includes using an aluminum rainscreen system that substitutes yet matches the pattern of the original tiles.

State Historic Preservation Office representatives said they will initiate a delisting process after the Portland Building is almost complete, and the City would be obligated to enter into a mitigation agreement for the adverse effect. In addition, there are City requirements to install "interpretive materials" in the renovated building and the project team reports these details have yet to be decided as of December 2018. The City will also have to pursue local landmarks status once the building is delisted from the National Register.

Figure 7.
Historical Preservation:
Chosen exterior design
will substitute original
materials and result in
delisting of building



Source: Architectural rendering submitted to Council and Historic Landmarks Commission

Recommendations The opportunity to revisit decisions that resulted in these outcomes has passed, but there are still compliance actions for the City to take. We recommend that the Chief Administrative Officer:

2. Incorporate Americans with Disabilities Act inspections during the remainder of construction and report on the status of accessibility barriers to the Office of Equity and Human Rights and/or Bureau of Human Resources.
3. Complete remaining state and local historical preservation requirements.

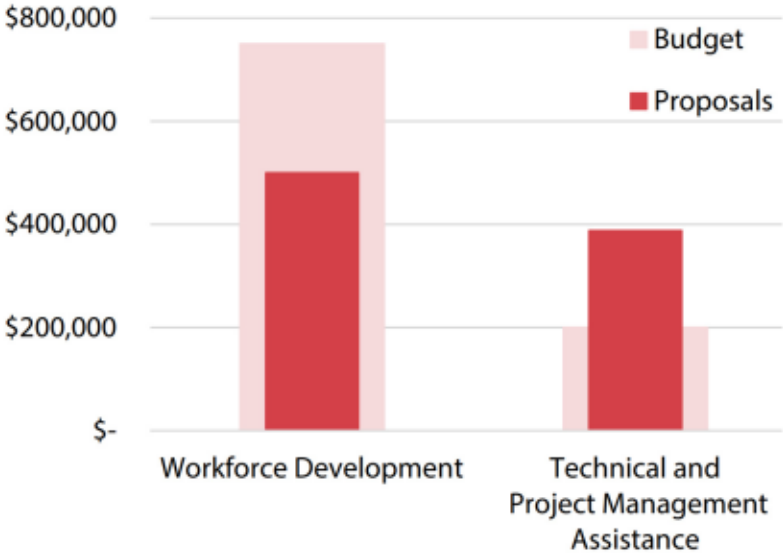
Audit Results **City missed requirement to disburse about \$1 million in grants to help meet equity goals**

Background City Council committed to set aside 1 percent of the Portland Building's "hard construction costs" for community benefits in October 2015, and \$1 million was allocated in July 2016. These funds were intended to address historical inequities in construction, and improve diversity in the workforce and among subcontractors. The plan was for these community benefits to "be dispersed in phases through the life of the [Portland Building] project ... and the Chief Administrative Officer will report back regularly to the Council on activities and results." The 2016 audit found that the community benefit activities were not integrated or aligned with the project schedule and recommended developing an implementation plan to maximize results of the equity goals for the Portland Building.

Update The City spent \$50,000 of the funds set aside for community benefits at the end of 2018 and had no plan to ensure the remaining \$950,000 would be disbursed by the completion of the renovation. The City contributed the \$50,000 to the Metro government's regional construction workforce study. No funds were spent in support of disadvantaged workers and businesses. There has been no report to Council about the status of these activities or results since 2016.

The Office of Management and Finance made one attempt to award community benefits grants but did not follow through with its plans because of a change in direction from the Mayor’s Office. The Office announced a competitive grantmaking opportunity in April 2018 as part of a broader City program, using funds from the Portland Building and two other City construction projects. Of the 39 applications received in August 2018, there were 12 Portland Building-specific proposals from eight organizations that totaled \$887,000 (see Figure 8). Despite available funds and interested applicants, who invested time to craft their proposals, the Office did not award any grants as scheduled for October 2018. The Office had yet to communicate with applicants by the end of 2018 about the status of their applications or the reason why the awards were not made.

Figure 8.
City received grant proposals yet made none of the planned awards



Source: Audit Services analysis of City grant application records

With less than one year of construction remaining, the City missed a strategic opportunity to use community benefits funding to help meet its stated equity goals for the Portland Building.

While the project team anticipates meeting other equity goals for Portland Building, some of them may not be met (see Figures 9A and 9B). As of December 2018, the notable anticipated shortfalls are for the use of minority-owned businesses in both professional service and construction categories. In addition, the use of female journey workers is tracking only slightly above its goal.

“Apprentice”

is a trainee receiving supervised on-the-job and classroom instruction.

“Journey”

worker has successfully completed an apprenticeship and has industry certification.

The Portland Building’s Oversight Committee regularly evaluates the renovation project and – because of the challenges in reaching subcontractor and workforce goals – has given its most critical ratings in the “Equity” category to encourage the achievement of these goals by the end of the project. The project team presented equity reports focused on the activities under the primary construction contractor and did not include the performance of the City owner’s representative who also has an equity goal for its portion of the Portland Building work.

“Owner’s representative”

is a third party hired to represent the project owner’s construction interests.

Figure 9A. Specific goals compared to use of certified subcontractors

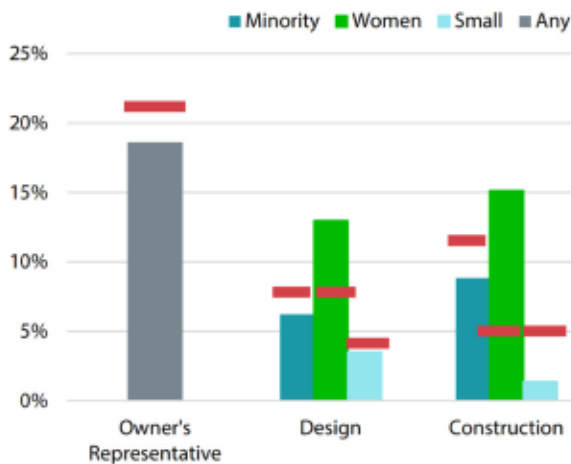
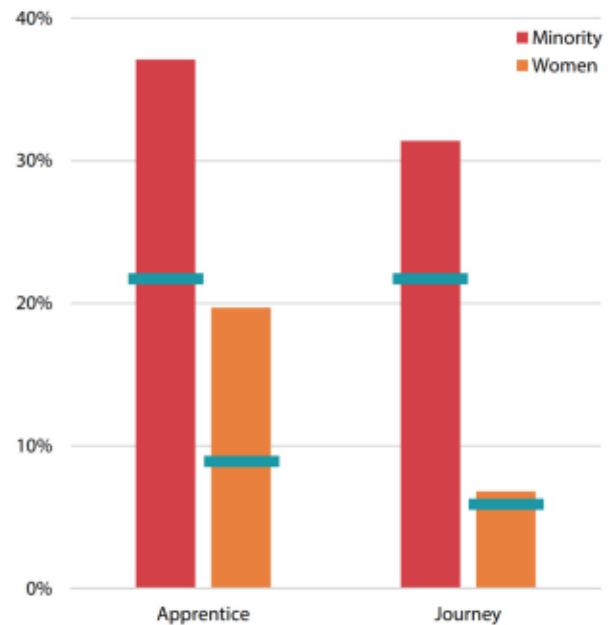


Figure 9B. Specific goals compared to use of diverse workers



In addition, it is unclear how any future grantmaking will be administered to remain accountable to the Portland Building's restricted sources of funding. The \$1 million for community benefits grants is funded by tenant bureaus with about \$360,000 from water and sewer ratepayer sources. Based on a recent court ruling and legal settlement that found the City spent ratepayer funds on non-utility projects, any use of ratepayer money must be reasonably related to the provision of water and sewer services.

Recommendations

Given the challenges that remain with the Portland Building's community benefits funding, we recommend that the Chief Administrative Officer:

4. Report to Council as required by the original Resolution, and inform applicants of City's grantmaking status; and
5. Remove ratepayer funds from the community benefits budget if future grants are not reasonably related to the provision of water and sewer services.

**Objective,
Scope,
and
Methodology**

We conducted this audit to determine the status of past audit recommendations as they relate to the City's current work on the Portland Building. This audit is a follow-up to 2016 report, [Portland Building Reconstruction: City faced with important post-planning decisions to ensure project success](#), and covers a fieldwork period ending December 31, 2018.

To accomplish this audit objective, we:

- Began by gaining an understanding of the Portland Building activities that occurred since our last audit period ended in July 2016.
- Reviewed relevant City Council, Historic Landmarks Commission, and Portland Building Oversight Committee records; contract changes; status reports (for example audit recommendation, construction, equity, financial); project management records; and communication updates.
- Interviewed City project staff, observed project management meetings, conducted a construction site visit in October 2018, and performed walkthroughs of key project controls.
- Compiled available information about known and anticipated side projects, communicated with subject matter experts inside and outside of the City, and reviewed records for community benefits-related activities.

We relied on management's representations about information provided and, whenever possible, sought corroboration from other sources and evaluated against our knowledge of operations. We requested supporting documentation and, if available, reviewed this information for reasonableness. As part of our work, we raised reliability questions about the equity status reports that we disclosed to City management. Therefore, our reviews are not intended to provide assurance that information provided by management is free from error, fraud, waste or abuse.

We conducted this performance audit in accordance with generally accepted 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



Office of Mayor Ted Wheeler
City of Portland

Madame Auditor,

We are very proud that the Portland Building Reconstruction Project is ahead of schedule and on budget. The goal of the project is to replace the building envelope to eliminate water intrusion, perform seismic upgrades, replace building systems at the end of their life cycle, and meet LEED Gold standards. The reconstructed building will create an adaptable building that will last 50-100 years, providing a productive work environment for employees and a welcoming space for community members.

The project has been transparent about additional initiatives proposed outside of the construction budget and the return on investment for each of them:

- In January 2017, the project team and CFO Ken Rust proposed the space optimization investment, which was approved by City Council <https://youtu.be/EutwjZrDdkc>.
- In 2018, the project team updated City Council on the project <https://youtu.be/lp-EhnshUMs>.
- The project team briefs Council members on project status and issues in monthly check-in meetings as needed.

It should be noted that the project team did not begin “excluding some elements from the project scope to stay within its \$195 million budget”. Furnishings, technology equipment, and childcare buildout were never part of the project scope <https://www.portlandoregon.gov/omf/article/620884>.

The project team has appropriately proposed opportunities - as they have identified them - to capitalize on this once-in-a-generation project to save money over the long-term. For example, the space optimization project alone is estimated to save the City \$25 million over the next twenty years by moving additional employees into the building not originally planned there, allowing us to avoid additional lease costs.

And, while technology was not in project scope, there is sufficient contingency to cover the cost. In November 2018, the project team was directed to invest in technology as part of the project without exceeding the \$195 million budget cap (<https://www.portlandoregon.gov/omf/article/732870>). It is worth noting that the Portland Building Community Oversight Committee agreed that this was a reasonable decision.

In line with your recommendations, we are now posting additional budget information on the project website. The most recent is here: <https://www.portlandoregon.gov/omf/article/733786>

Regarding the COEP dollars your team identified, more than \$800,000 will be released once the COEP is successfully established in Prosper Portland, per Council direction. In short, the opportunity, though delayed, will be realized.

Finally, the Portland Building Community Oversight Committee, a group of Council appointees with decades of experience on complex construction projects, has consistently given the project top marks for budget discipline and scope; the “red” score on equity your team refers to in the audit has been clearly and consistently articulated by the committee as a respectful prod to the team to continue driving hard to achieve our goals in a tight market for both skilled labor and contractors. We embrace this tight oversight and believe it has been instrumental in achieving excellent results to-date.

Please see the latest equity numbers for both workforce and contracting goals (<https://www.portlandoregon.gov/omf/article/732386>). The City set ambitious goals in both areas and is on track to exceed them.

We trust you have had time to review the Portland Building Community Oversight Committee’s letter regarding your audit and the project’s transparency <https://www.portlandoregon.gov/omf/article/733397>.

Thank you for adding this to your team’s work over the past year at the CAO’s request and for all your team’s efforts to improve City government.

Sincerely,

Mayor Ted Wheeler

Tom Rinehart, CAO



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Report #482B, June 2019

Audit Team: Tenzin Gonta,
Alexandra Fercak

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