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Date: February 9, 2017

To: Chair Kafoury, Commissioners Meieran, Smith, Vega Pederson, & Stegmann;
COO Madrigal; Strategic Capital Planning Director Yates

From: Steve March, County Auditor

Re: Audit of Central Courthouse and Health Department Headquarters Construction
Project Planning

This pair of audits covers the planning efforts for two of the largest building construction projects Multnomah County has ever undertaken. Most audits look back at a completed project or program that has been operating; however, given the size and significance of these two projects, we did not want to wait until the projects were completed before starting our reviews. We will continue to audit these projects as they progress because we believe that reporting on more of a real-time basis can be more effective and will better inform the Board and the public.

The Central Courthouse and Health Department Headquarters projects have a combined budget of nearly \$400 million and represent two very prominent projects pursued by the County. We focused on two areas that pose significant risks to construction projects of this size: project governance and decision making and the process used to decide on the project scope that best meet objectives.

To give these projects the greatest chances for success, we believe that they should be organized and planned using best practices in project management. We found that the projects were following these best practices, in spite of the fact that there has not been Countywide guidance on how capital projects should be managed.

The County appears to be moving in the right direction in terms of strategic capital planning in an era of tight funding and a long list of capital needs. We support the efforts

to develop a transparent and consistent process for prioritizing capital spending where none existed before (see our 2015 audit, *Capital Financing & Planning*). Moreover, whether incorporated into existing County procedures or included in new guidelines, the County needs to foster consistency in project management by building project management best practices into its administrative procedures.

We would like to thank the projects' staffs, the staff of Facilities and Property Management, and the Strategic Capital Planning Committee and staff for their ongoing assistance and cooperation. Success of these and future capital building projects will depend on the cooperation and collaboration of all of those involved. Audit staff on these two reports were Fran Davison, Jennifer McGuirk, Marc Rose, and Mark Ulanowicz.

C: Presiding Judge Waller, DCA Director Swackhamer, HD Director Fuller, FPM Director Alaman, CFO Campbell

New Health Department Headquarters Project Planning

Some of the greatest risks in construction project planning involve the process of agreeing on project objectives and how they will be achieved. Carefully planning what will be in the building to meet objectives reduces the likelihood that the County will need to make expensive changes later on in the project. And, having a good governance structure helps control costs by facilitating better and more timely decisions. This report on the new Gladys McCoy Health Department Headquarters explains whether the County used effective processes to manage these risks. We found that while the County does not have good written procedures in place to help guide capital projects, the project team appeared to follow best practices with regard to identifying stakeholders, deciding what would be in the building, and developing a decision-making structure for the project.

We did not make determinations about the quality of the County's decisions. For example, we did not evaluate whether the County had made the best choices about what would be in the building. We focused on the process that the County used to arrive at its choices because, according to project management best practices, effective processes reduce the risk that projects will fail.

We've structured this report into a series of questions and answers about project decisions and processes.

Why did the County choose to go forward with this project?

The availability of land and funding to replace a poorly performing building, along with support from elected officials, led to the decision to build a new Health Department Headquarters.

The existing McCoy Building has been one of the poorest performing buildings the County owns. The building has been targeted for replacement for more than a decade, with a large backlog of deferred maintenance. Also, the building is a seismic liability,

even though its Health Department tenants are a critical piece of the region's disaster response infrastructure.

In 2010, as part of the ongoing discussions with the City of Portland about urban renewal districts, the County got the opportunity to obtain both land and urban renewal district funding if it developed a building within the River District Urban Renewal area – only a few blocks away from the existing McCoy Building. The combination of need, available land, and funding brought sponsorship from then-Chair Jeff Cogen and then-Commissioner and current Chair Deborah Kafoury, who pushed to start the project.

While best practices recommend a full analysis of alternatives before committing to a new construction project, officials moved on the opportunity for land the County wouldn't have to purchase and \$26.9 million in funding.

To qualify for tax increment financing from the Portland Development Commission, the project would need to be in the River District, an area in NW Portland (west of the Willamette River to NW 16th Avenue, roughly between Burnside and Northrop). Through an agreement with the Housing Authority of Portland, Home Forward, the County would be able to acquire the half-block of available land to build a County facility that would satisfy the requirements to receive the financing. Home Forward had an option on land. The County agreed to use Home Forward as developer.

The County had been looking to relocate Health Department programs and functions into an improved facility for many years. While there were other County buildings on its list for disposal or upgrade, most were not good candidates for this specific location for a variety of reasons – they did not need a downtown location, were not suitable for the neighborhood, or the lot size was too small. The Health Department seemed to meet the criteria for the land which was located in the area that would qualify for funding.

County administrative procedure FAC-1 describes a process for planning, authorization, and construction of major facilities capital projects, but does not address

how projects are selected. The process for initiating new construction projects has not been well defined. The County Facilities Division used a system to categorize buildings as high, medium, and low performing, with the objective of upgrading buildings to high performers or disposing of those that were too expensive to upgrade or not well sited, among other factors. A new effort is underway to create a more strategic process for long-range planning and capital asset priorities which may provide a more well-defined path to new construction projects.

Who provided input on the project?

The County did a good job of including key stakeholders in the planning process -- the direct users of the building; those that will be responsible for activities involving the building, such as maintenance; and others outside the County who will be affected by the project. The process of identifying stakeholders was made easier by having the relatively simple project goal of moving the existing programs out of the original McCoy Building a few blocks north to the new building. Having limited space in the new building also meant that there was little room for new or different programs, which would have significantly increased the number of internal stakeholders.

Best practices suggest that stakeholders consulted on a project should include people, groups, or organizations that could impact or be impacted by project decisions. This means that stakeholders should include direct users of the building, such as clinic and administrative staffs, as well as people who are responsible for associated activities such as financing, building operation/maintenance, and information technology. The County followed these best practices when it created the various project and advisory teams for the new building. The County also communicated with external stakeholders, but these discussions focused primarily on the impact of construction and moving the Health Department's specialty clinics to the new location rather than what programs would be included in the project and how they would be configured.

The County identified a number of external stakeholders in the Preliminary Planning Proposal – a planning document required as part of the FAC-1 administrative procedure process. The potential stakeholders listed included prospective project

neighbors as well as community partners. The County held formal and informal meetings with affected neighborhood organizations, such as the Old Town Chinatown Community Association, as well as community partners.

The Health Department regularly uses client data when it is choosing locations for its clinics and services. The Health Department also consulted with some specialty clinic clients when planning for the new building, but believed that other factors, such as the cost of leasing and building out clinic space at other locations and the relative close proximity to the previous clinic, precluded placing the clinic(s) in other locations.

How did the County decide what would be in the building?

The goal of the Health Department Headquarters project was fairly straightforward: relocate the programs and services housed in the existing McCoy Building into the new facility. This ended up being more complicated than originally anticipated when the project team determined that more space was needed than could be accommodated in a new 6 story building.

While the project teams appeared to get off to a solid start to establish program needs, the process stalled when it became clear that, due to a 6 story building height limit, the development capacity of the location was not sufficient to fully accommodate all the Health Department Programs from the existing building. The new space would be even smaller than the existing McCoy building (96,000 square feet vs. 109,000 square feet); also, workspaces in the existing McCoy did not follow current clinic or office standards and would need to be larger. Several months were spent trying to determine how and where programs would fit. Some programs would need to be located elsewhere, in leased space, which would be an additional cost.

Shortly after taking office in July 2014, newly elected Chair Kafoury put the project on hold to assess options. The County investigated other possible locations within the urban renewal district, assessed the cost to lease and build out space, and worked with the City to consider alternatives to increase the building height. In early 2015, the County and Home Forward mutually agreed to terminate their agreement in which

Home Forward served as the developer. Soon after, the County began the competitive process to select an owner's representative to provide construction expertise and represent the County's interests in the project. In June 2015, the City of Portland agreed to increase the building height limit to allow a 9 to 10 story building, increasing the allowable height from 75 to 150 feet.

Soon after the City approved the height increase, the Chair "Reset" the project and the team transitioned to a plan that would provide sufficient space to satisfy program needs and include a small amount of space for growth. Notably, during the time between the initial programming efforts and the Reset, the size of a number of Health Department programs increased due to health care changes at the state and federal levels, requiring even more space.

The new McCoy building is projected to house nearly 500 staff and critical Health Department functions including: County Health Department leadership and administration, public health professionals and investigative units, an emergency command center, and specialized programs and services such as vaccine storage, multiple clinics, a lab, and a pharmacy. The requirements for these specialized services are complex and expensive to build. For example, the lab space needs specialized equipment, plumbing and ventilation; clinic space may need additional plumbing and airflow controls; a pharmacy requires appropriate security, climate controlled storage areas, and a loading dock for shipping and receiving.

Project management best practices emphasize the need to include stakeholder participation in the programming and design. For this project, the County appeared to meet this best practice.

The project design team held meetings with stakeholders, conducted interviews, toured buildings, and observed operations to identify space needs, operational models, and future staffing expectations. They incorporated current standards for clinic and office spaces and included input from County Facilities staff with extensive experience constructing and maintaining health-related facilities. The design team and Health

Department staff went back and forth on layout and design to arrive at a floor plan that would meet the needs of Health Department clients and staff.

According to the Health Department Headquarters Project Plan, the new building will house all programs from the McCoy Building along with some currently located in the Lincoln Building. The new building will include the following:

- Health Department Director, leadership, and administrative staff;
- Health Officer, Medical Director, and staff;
- Emergency Preparedness and Response;
- Vaccine Depot and immunization storage;
- Community Health Services (STD program, HIV and Hepatitis C Development and Evaluation, and the HIV Health Services Center);
- Communicable Disease Services (TB clinic, Community Immunization, and Epidemiology);
- Central Laboratory;
- Pharmacy and Pharmacy Administration;
- Business Operations and Human Resources from the Lincoln Building; and
- A number of other programs, services, and administrative functions.

How is the project being paid for?

The plan to pay for the Health Department Headquarters building does not involve any new tax revenue. In an October 2015 presentation to the Board of County Commissioners, the project team provided the following breakdown of sources of funding for a new building costing approximately \$90 million.

Exhibit 1: Projected Health Headquarters Funding

General Fund cash transfer	\$5,400,000
Tax Increment Financing from PDC	\$36,400,000
Long-term debt (estimated bond sale proceeds)	\$49,500,000
Total	\$91,300,000

Source: December 2015 CFO Board Presentation

The tax increment financing came via the Portland Development Commission (PDC) from urban renewal district funds. The first \$26.9 million committed to the project came in 2012 from the River District Urban Renewal Area. PDC committed the remaining \$9.5 million in 2015.

The amount of long-term debt required depends on a number of factors, including:

- The final cost of the building;
- The amount of one-time-only funding committed to the project by the Board of County Commissioners, such as the proceeds from the sale of the existing McCoy Building; and
- The amount of budgetary savings the Health Department can manage on things like building furnishings and equipment.

In June 2016, the project team updated the Board of County Commissioners on estimated project costs:

Exhibit 2: Project Costs by Category

Direct Construction	\$61,300,000
Soft Costs (design, permits, fees, consultants, etc.)	\$18,000,000
County Furnishings (medical equipment, IT, etc.)	\$12,700,000
Total project budget	\$92,000,000

Source: June 2016 Health Headquarters Project Board Presentation

How does the project financing affect County residents?

The financing for the new Health Department Headquarters project does not affect most residents directly: there is no increase in property taxes or other taxes.

But, financing the project does affect residents indirectly: beginning in 2018, the County will start paying the debt service on the bonds issued to finance a portion of the project. This is akin to a mortgage, and the cost, depending on the interest rate of the debt and the length of the term, will be \$50,000 to \$60,000 a year for every \$1 million borrowed. At the current level of expected borrowing (\$50 million), the annual cost will be \$2.5 - \$3 million.

That \$2.5 - \$3 million annual cost represents funds that, were it not for taking on the financing for this project, the County could spend on other priorities – such as services for County residents.

Who has made project decisions? How?

The project management team—which includes the County project manager, owner’s representative, general contractor, and architect—is responsible for day-to-day decision making and can escalate issues to department leadership and then the Chair and Board of County Commissioners, if necessary.

The decision-making structure is based on a hierarchy of teams tasked with specific responsibilities; when a team reaches an impasse on a decision or an approach to meeting their responsibilities, they elevate the issue to the next level.

Teams appeared to meet regularly and issues seemed to reach their appropriate level and get decided usually within a month. Issues that make their way to the Chair’s Office and the Board generally involve the need for decisions related to specific County goals, policies, or a significant change in the budget or standard procedures.

The County appeared to meet best practice recommendations for governance and decision-making with clearly stated goals and objectives for the project and a decision-making structure that helps to keep the project on schedule.

The governance structure appeared to be designed to expedite decision making and to focus decision making at the appropriate level. Being able to make decisions in a timely manner helps to keep the project on schedule and control costs. Also, the project team has communicated decisions regularly with stakeholder groups, clarified and resolved conflicts, and maintained documentation of issues and their resolution.

Project management best practices stress the importance of having a project charter that provides an overview of the project purpose, measurable objectives, schedule milestones, summary budget, stakeholders, decision-making structure, and project sponsorship. It is important to have the decision-making structure established as early as possible in the project life cycle.

While not always specifically identified as part of a charter, the County's FAC-1 Administrative Procedure calls for project teams to develop many of the types of information that best practices recommend for a charter. But, FAC-1 calls for this information later in a project than best practices would advise. Nevertheless, the project team complied with the best practice by developing a charter early. And, the team appeared to apply the decision-making processes described in the charter consistently.

Does the County have good policies to manage major capital construction projects?

The County does not have good procedures in place to help guide projects like the new Health Department Headquarters building or new Central Courthouse. The primary administrative procedure governing construction projects – FAC-1 – does not cover the entire project life cycle, nor does it fully incorporate project management best practices. FAC-1 seems to provide value primarily by ensuring that the Board of County Commissioners receives timely information on facilities capital projects and has regular opportunities to shape project direction, scope, and budget. While FAC-1 assigns responsibilities for various aspects of project planning, development, and reporting, it is silent in terms of guidance for project managers. For example, FAC-1 provides no guidance on how to manage the issues we focused on in this review, such as decision making and stakeholder engagement.

In addition to facility construction, major capital projects at the County include projects in County Information Technology and Transportation. The County would be best served by aligning its approaches to planning and implementing these projects. And the County is taking steps to do so. In 2015, our office issued an audit of capital financing and planning. The Department of County Management's response to our recommendations included creating the Strategic Capital Planning unit that is responsible for collaborating with County Transportation, Facilities, and IT to develop a comprehensive long-term capital plan.

To help ensure that major capital projects are managed in accordance with the County's efforts in strategic capital planning, we recommend that Strategic Capital Planning:

1. Continue guiding the development of a consistent, transparent County process for major capital projects. This process should be documented and applicable to major capital projects in Transportation, Facilities, and IT.
2. Revise FAC-1 to cover the full project life cycle, align with project management best practices and expand it beyond Facilities to include all major capital projects.

Scope & Methodology

This is the first in a planned series of reports on each of two major construction projects the County currently has underway – the Central Courthouse and the Gladys McCoy Health Department Headquarters. Each report will focus on areas of high risk at different phases of the project.

These first reports cover the planning phases of the projects, where some of the greatest risks involve identifying the programming—what will be in the building—and scope and establishing a governance and project management structure. Carefully planning the programming reduces the likelihood that the County will need to make expensive changes later on in the project. And, having a good governance structure helps control costs by facilitating better and more timely decisions. The first reports cover the time period corresponding to the County's early work leading to project start through the completion of design development.

The objectives of the first set of reports were to 1) review the County's decision to pursue these particular projects at this time, 2) determine if the County followed leading project management practices to make sure the right people, including those with knowledge of essential business, operational, and other needs, were involved in establishing the building scope and programming requirements, and 3) determine if the County followed leading project management practices to create a governance and decision making structure for the projects.

To answer these questions, we compared County practices to the Project Management Institute's Project Management Body of Knowledge (PMBOK) as well as the County's own policies and procedures. PMBOK is a standard used for project management in various applications and we focused the audit on those PMBOK components related to project scope, program requirements, and governance. We reviewed program documents, including meeting minutes, program plans, contracts, and presentations. We also interviewed project team members and stakeholders and attended a variety of project meetings.

We conducted these performance audits 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 the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Team

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Department of County Management
Strategic Capital Planning Program

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Peggy Yates, Strategic Capital Planning Director

RE: Response to Major Capital Construction Audits

The Strategic Capital Planning Steering Committee (Steering Committee) appreciates the efforts of you and your staff on the Major Capital Construction Audits for both the new Multnomah County Central Courthouse and the Gladys McCoy Health Department Headquarters. Your comments and recommendations are valuable in substantiating currently effective measures that have been implemented, supporting continual improvements around major infrastructure development that support service delivery to the community and improving the County's long-term financial stability. We recognize the audits were focused on the planning and design efforts completed that represent a first in a series of reports on these projects.

Audits' Objectives

1. Review County's decision to pursue these particular projects at this time
2. Determine if the County followed leading project management practices to ensure the right people were involved in establishing the building(s) scope and programming
3. Determine if the County followed leading project management practices to create a governance and decision making structure for the projects

Department of County Management

Strategic Capital Planning Program

Summary of Audit Findings

We appreciate the validation that both the New Central Courthouse and the Health Department Headquarters projects followed industry best practices and the project teams appeared to follow project management best practices that reduced risks of schedule delays and cost overruns that ensure project success. Over the last eight years, the County has built upon the success of previous projects and improved processes that mitigate risk including:

- Formalizing clearly stated goals and objectives for each project that provide the framework for project decision making
- Identifying and involving key stakeholders during programming and design, including building occupants as well as IT and facilities staff
- Determining the attributes of the buildings required to not only meets current needs but addressing long-term growth and to support the transformation of government operations
- Adhering to effective, timely and transparent decision making and authorization processes that ensure issues reach the appropriate level within the organization
- Following effective communication processes with key stakeholders around risks, challenges, conflicts, necessary decisions, and documenting the outcomes.

The audits raised concerns around how major capital projects are selected and prioritized, the role of the FAC-1 as a project management tool, and suggested the development of a capital project management manual to institutionalize consistent project management practices across the County.

Current County Capital Project Procedures

Project Selection Criteria and Methods

As is the case across the nation, capital infrastructure needs far exceed the available resources. The County is challenged with balancing the demand for funding of immediate critical safety net services to the community's vulnerable and underserved populations against the cost of providing the critical infrastructure needed to deliver these services.

These projects were selected based upon a number of criteria documented in a number of areas. The Facility Asset Strategic Plan identified both the existing Multnomah County Central Courthouse and the Gladys McCoy Building as low performing buildings in the County facilities portfolio. This determination was based upon their operational and programmatic inefficiencies, as well as future operating capital needs required to maintain the facilities.

Both buildings experience a high volume of public users and employees. The courthouse serves up to 3,000 members of the public a day and houses 500 public employees. The

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Gladys McCoy Building houses critical community and emergency health functions, which are imperative to the integrity of the regional public health network, as well as the 350 employees who are responsible for delivering those services. It was determined that these investments would result in the greatest community impact.

A 2006 seismic study conducted on behalf of Facilities and Property Management identified these as extremely vulnerable unreinforced masonry buildings that could not sustain a large seismic event. The combined seismic liability of these two buildings is approximately \$68 million or 22% of County's total facility seismic liability.

The final important factor in selecting these projects related to the ability of County leadership to effectively include project partners and leverage outside funds including \$125M from Oregon Department of Justice and approximately \$36M from the Portland Development Commission. These combined factors are examples of criteria used to prioritize projects against other competing needs and demands.

FAC-1 Purpose and Limitations

The FAC-1, last revised in 2008, was developed prior to the County embarking on three major capital projects, starting with the East County Courthouse. Its purpose was to define a major facilities capital project, establish a comprehensive process for the planning, authorization and construction of Major Facilities Capital Projects, identify the key participants' roles and responsibilities in these projects, and specify the key phases of a capital project. Over the last 8 years, the County has made continual process improvements that support an effective governance structure and risk mitigation.

When it was developed, the focus of the FAC-1 was not to take the place of a Project Charter or Project Management Plan but to work in conjunction with them and complement those efforts. In addition, the FAC-1 was not intended to outline a process for selecting projects.

Aligning Major Capital Projects and Policy with the County's Strategic Vision

In March of 2016, the Strategic Capital Planning Program was initiated in response to the County Auditor's March 2015 Capital Audit. The Program's purpose is to develop a 20 year county-wide strategic capital plan that identifies long-term capital needs and provides a framework to prioritize capital investments across the capital units. The Program is also responsible for developing a mechanism to assess project outcomes that support ongoing process improvement.

The Steering Committee was formed to work closely with the Program in developing the framework for a biannual Strategic Capital Plan to present to the Board of County

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Commissioners for approval. In addition, this Steering Committee will work with the Program Director to recommend policy that supports transparency, consistency and best practices resulting in successful project outcomes. The Steering Committee is currently working with the Program Director to develop the framework necessary for selecting and prioritizing capital projects in alignment with the County's Mission Vision Values and Strategic Framework. This framework is anticipated to be completed in FY 2017.

When the capital framework is complete, the Program, with the guidance of the Steering Committee, the Capital Technical Team, Facilities and Property Management, and other key stakeholders, will focus on evaluating the FAC-1 and potentially develop additional County-wide administrative procedures related to capital such as a CAP-1 that supports the County's capital planning efforts including:

1. Defining Major Capital Projects across capital units
2. Aligning administrative procedures to reflect project management best practices

The creation of these policies and procedures will create a formal and consistent methodology to guide the County's major capital projects.

We are looking forward to your office's on-going efforts associated with the Major Capital Construction Audits. Thank you for providing a professional third party perspective of the capital investments and supporting our continuous process improvement. If you have any questions or concerns, please feel free to contact us.