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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 Central Courthouse 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 Central Courthouse 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 reasons this project proceeded come down to great need, financial support, and elected champions. The existing courthouse is in need of significant seismic upgrades and is mechanically outdated. The state approved the County's application for matching funds to construct the new courthouse, up to \$125 million. This partnership provided a good opportunity for the County to proceed with the project. It is worth noting, future legislatures are not bound by the agreement; in 2017, the state legislature will take up the decision to allocate the final \$93 million of state funding to the project. It is not a guarantee.

The need for a new courthouse has been known for decades; County-commissioned reports on the need to reprogram space in the courthouse date to the 1980s. The current courthouse's generally poor condition was highlighted in the capital budget in 2007, and was on the County Facilities Division's radar as an anticipated renovation or new capital project for quite some time prior. Planning for the new courthouse began in earnest in 2006 and in 2011 the County began discussions with the state legislature. In 2013, the project gained greater momentum when it was placed on the legislative agenda, supported by then-Chair Jeff Cogen, and championed by then-Commissioner and current Chair Deborah Kafoury and former Commissioner Judy Shiprack.

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?

Direct users of the building, such as judges, Sheriff's Office personnel, and District Attorney staff influenced what would be in the building, as did people who are responsible for associated activities such as financing, building operations and maintenance, and information technology.

Best practices tell us that it is important to get key stakeholders—those people and groups that could impact or be impacted by project decisions—involved in project planning. This helps reduce the chance that the County will have to make expensive changes later about what will be in the building. The County followed these best practices when it created the various project and advisory teams for the new building.

Through participation in a National Center for State Courts (NCSC) analysis, courthouse users initially influenced what would be in the building, by weighing in on programmatic needs. NCSC experts further influenced the building's program by projecting courthouse needs into the future and reflecting modern courthouse standards. Day CPM, the owner's rep for the County, and the County project manager influenced programming by setting the limits of what could realistically be included in the building based on the established budget. Though budget limitations are a significant constraint on what will be in a building, the designers, architects, internal users, and facilities maintenance staff have continued to influence the building through the design development phase, and external groups such as Elders In Action and the Bicycle-Pedestrian Alliance have been invited to provide input.

The County invited the public to open houses in 2015 and 2016. Comment forms were provided at the open houses. In addition, an online survey regarding site preferences was made available online.

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

The County's project team appeared to follow project management best practices to decide what would be in the building.

These best practices emphasize getting input from building users and other stakeholders. The County used a variety of best-practice tools to get input and finalize needs. For example, the County:

- Hired the National Center for State Courts, a nationally recognized court improvement organization, to prepare a space program for the building;
- Critically reviewed this plan—for example, reducing the proposed number of civil, criminal, family, mental health, and probate courtrooms from 45 total to 40—to more realistically reflect projected needs while allowing for some potential growth and flexible use of space;
- Interviewed current courthouse users, including judges and court staff;
- Held workshops and meetings with users and other stakeholders;

- Built mock-ups of various courthouse spaces; and
- Refined plans to arrive at the final design.

Initially, the District Attorney's Office was not part of the project scope. In 2015, the Board of County Commissioners directed the project team to evaluate the cost to rent space for the DA's Office and four high volume courtrooms compared to including them in the courthouse. The analysis showed that having these programs in the courthouse would result in annual savings, and the team added them to the scope. All future building occupants had the chance to approve their plans, helping to lock in the design and reducing the chance that the plan for what will be in the building will change.

Like other courthouses, the Central Courthouse presents unique security concerns to provide a safe facility for the more than 500 people who work there and the approximately 3,000 members of the public who come to the courthouse each day. There are needs for general security screening at the public entrance. And there also need to be secure ways to transport in-custody individuals to the courthouse, hold them at the facility, and move them through the building in corridors and elevators that visitors, victims, attorneys, and courthouse staff do not use. Meeting these needs is complex and costly.

According to the courthouse project plan, the courthouse will include the following:

- 40 Courtrooms for civil, criminal, family, mental health and probate cases
- 4 high-volume courtrooms for parking citations, other violations (primarily traffic citations), small claims, and landlord-tenant (FED) cases
- Judicial referees' chambers for the above case types; support staff space for case management and public services associated with these cases
- Jury deliberation rooms on a ratio to courtrooms as determined by program fit per floor
- Judicial chambers
- Circuit Court Public Service and Case Management operations for all case types
- Main jury assembly room for newly reporting jurors and multiuse space for meeting rooms

- Family court services—a professionally staffed service program for families before the court
- Probation intake services
- Grand jury proceedings rooms and support services
- Office of the Trial Court Administrator and support staff; payments, revenue accounting and collections services
- District Attorney Offices
- Public Defense Resource Center—support space for publically paid attorneys for the indigent
- Court Care space—a drop-in child care facility for parties with cases before the court
- Legal Resources Center—a staffed digital library and assistance function for attorneys and the public, including self-represented litigants
- Restricted, secured, indoor entry (known as a sally-port) and secure holding for 70 in-custody defendants

We have provided this summary of what will be in the building for information purposes only. We did not evaluate whether the County had made the best choices about what would be in the building.

How is the project being paid for?

Multnomah County and the State of Oregon are funding this public project. The plan to pay for the new Central Courthouse does not involve any new taxes.

In December 2015, the County's Chief Financial Officer presented the Board of County Commissioners with an anticipated project funding strategy, based on a \$295 million building:

Exhibit 1: Projected Courthouse Funding

Anticipated state commitment	
Article XI-Q general obligation bonds	\$125,000,000
County commitment	
General Fund cash transfer	\$31,400,000
Property sales (including Morrison Bridgehead)	\$10,400,000
Long-term debt (bond sale proceeds)	\$128,000,000
Total	\$294,800,000

Source: December 2015 CFO Board Presentation

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

- The final building cost
- The amount of one-time-only funding that the Board commits to the project, such as proceeds from the sale of the existing Central Courthouse. The courthouse's listing on the National Register of Historical Places complicate options including renovation and leasing, or sale.

The County owns the project because state law requires the County to provide a County courthouse. But, the judges and other Court staff who work in the building are state employees. This relationship motivated the County to apply to the state for a 50/50 match to fund the project. At the time, the project cost estimate was \$250 million. Based on the state's approval of the County's application for a 50/50 match, the County has anticipated \$125 million coming from the state.

At the Board of County Commissioners' direction, the project team evaluated the cost to rent space for the District Attorney's Office and four high volume courts compared to including them in the courthouse. The analysis showed that having these programs in the courthouse would result in annual savings.

Based on this analysis, the Board directed the team to add the DA's Office and four high volume courtrooms to the project scope. This raised the approved cost to \$300 million. The state contribution did not increase with these program additions.

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

Exhibit 2: Project Costs by Category

Direct construction	\$208,000,000
Soft costs (permits, fees, consultants, etc.)	\$65,000,000
Total estimate	\$273,000,000
Project contingency	\$27,000,000
Total project budget	\$300,000,000

Source: June 2016 Courthouse Project Board Presentation

During the time of this audit, some of the state's financial support appeared pending; the County anticipated making a request to the legislature for the final \$93 million in 2017.

How does the project financing affect County residents?

The financing for the new Multnomah County Central Courthouse 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 2017, 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 about \$50,000 to \$60,000 a year for every \$1 million borrowed. At the current level of expected borrowing (\$128M), the annual cost will be \$6 - \$8 million.

That \$6 - \$8 million annual cost represents funds which, were it not for taking on the financing for this project, the County could spend on other priorities – such as services for County residents. The state’s contribution to the project has a similar indirect effect – money going toward the courthouse project is money that can’t be used for other potential state projects or services.

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 from 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 Transportation and Information Technology. 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 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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Jennifer McGuirk, Certified Internal Auditor, Senior Management Auditor
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Department of County Management
Strategic Capital Planning Program

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Strategic Capital Planning Steering Committee:

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Kim Peoples, DCS Director
Sherry Swackhamer, DCA Director
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.