Metro
600 NE Grand Ave.
Portland, OR 97232-2736

Council work session agenda

Thursday, September 22, 2022 **10:30 AM** **https://zoom.us/j/615079992 (Webinar ID: 615079992) or 929-205-6099 (toll free)**

Joint Metropolitan Exposition Recreation Commission/Council Work Session

Call to Order and Roll Call

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Work Session Topics:

10:30 Expo DOS (development opportunity study) 22-5764

Presenter(s): Paul Slyman (he/him), Metro
Giyen Kim (she/her), Metro

Attachments: Staff Report
Expo Future
Expo Future Scenario Guiding Principle

11:15 Portland’5 IGA Audit Results 22-5766

Presenter(s): Brian Evans (he/him), Metro
Simone Rede (she/her), Metro
Angela Owens (she/her), Metro

Attachments: August Audit
August Audit Highlights

11:35 Venue Visioning Update 22-5765

Presenter(s): Steve Faulstick (he/him), Metro

Attachments: Staff Report

12:10 Chief Operating Officer Communication

12:20 Councilor Communication

12:30 Adjourn

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January 2021

Expo DOS (development opportunity study)

Work Session Topics

Metro Council Work Session
Thursday, September 22nd, 2022

EXPO FUTURE PROJECT: NEXT PHASE(S) AND GOVERNANCE

Date: 09/08/22
Department: COO
Meeting Date: 09/22/22

Prepared by: Paul Slyman, Giyen Kim
Presenter(s): Paul Slyman
Length: 30 min

ISSUE STATEMENT
Metro owns the Portland Expo Center site – a well-positioned, 53-acre employment site at the economic center of the Portland metro region. The site has 333,000 square feet of existing building area and over a million square feet of paved parking lot. Located adjacent to a Yellow Line Max light rail stop and at an I-5 access ramp, the site is served by significant infrastructure.

In the fall of 2019, Metro Council addressed how to approach the long-term sustainability of the Expo Center. The three older Expo Center buildings require significant capital investment, and there is no identified funding available for major renovations or replacement. To understand Metro's options, Council launched a Development Opportunity Study (DOS), an exploratory process to determine how Metro could leverage this valuable site to maximize public benefit and seek financial sustainability.

As a first step, Metro engaged community stakeholders with a direct connection to the site and area, including members of the Black American, Japanese American, and urban Indigenous communities and current vendors and clients of the Expo Center. Through several rounds of engagement meetings, a set of "guiding principles" were developed and adopted by both the Metropolitan Exposition and Recreation Commission (MERC) and Metro Council. These Tribal and community-developed guiding principles will shape the decision-making process.

At the conclusion of the study, four options were posed to Metro – sell, complement existing use, reuse the existing site for other purposes, or redevelop the site. Council and MERC directed staff to deprioritize the sell option and to create a solicitation process to determine partner interest in the site.

In June, Metro launched a Request for Expressions of Interest (RFEI), a lower-barrier flexible process to seek development partners that can provide creative ideas and capital to develop the 53-acre site. Throughout the summer, the project team met with potential partners to articulate the details of this opportunity and understand how their idea might be a possible use for the site. To date, seven respondents have expressed the intention of submitting a proposal for either partial or total use of the site. Five additional respondents have indicated that they are still considering the opportunity.

The RFEI, or Phase 1 of the Expo Future project, takes Metro through the submission period and concludes with a report and recommendation of next steps by the Chief Operating Officer. We anticipate this process to conclude in the first quarter of CY 2023.

In anticipation that Metro Council and MERC will be poised to consider a set of options after the RFEI concludes, staff seek to clarify additional phases of the Expo Future project. We intend to create a process that brings council and commission through a set of conversations around potential options, develop a community outreach strategy, and establish a decision-making structure.

ACTION REQUESTED

Staff are requesting direction from Metro Council and MERC on actions to pursue as well as a revised governance model for future project phases.

Phase 1 concludes in the first quarter of CY 2023. Proposed draft timeline:

Date	Milestone
October 2022	RFEI proposal due date
January 2023	RFEI review process and report complete
February 2023	COO recommendation to Metro Council and MERC Phase 1 Ends
Spring 2023	Phase 2 Begins Expo Future Steering Committee considers options
Winter 2023	Steering Committee makes a recommendation to Metro Council and MERC on next steps
2024	Phase 3 Begins Metro enters negotiations with potential development partner(s)
2025	Metro finalizes development and lease agreements with site partner(s)
2026+	Active redevelopment of the Expo site.

IDENTIFIED POLICY OUTCOMES

Given the nature of an RFEI, Metro Council and MERC have flexibility in how to approach the next phases in decision-making and development. Staff are seeking Metro Council and MERC's guidance in structuring those phases and establishing the optimal governance structure to ensure the project continues to deliver policy outcomes that align with Metro's goals and values.

POLICY QUESTION(S)

1. What project phase(s) should follow the review of submittals?
2. What governance structure should the project team report to in future phase(s)?

POLICY OPTIONS FOR COUNCIL TO CONSIDER

We are nearing the outcome of Phase 1 of the project with the submittal and review of Expressions of Interest from potential site partners. Previous direction from Metro Council and MERC focused on adopting the Tribal and community-developed Guiding Principles as the central criteria for ensuring potential partners meet the desired outcomes of Expo's governing bodies. Those Principles will be included in the analysis of each proposal and reviewed by a Community Review Committee. Additionally, each proposal will be reviewed for financial soundness; facility function and compatibility; local government programs, funding, and obstacles; and, if requested, by Tribal Governments.

STAFF RECOMMENDATIONS

Staff recommends the following actions –

- **The development of two additional phases** following the conclusion of Phase 1: Request for Expressions of Interest.

    - **Phase 2: Pre-development –** reviews the direction from Metro Leadership, evaluates external factors that impact the project, selects a path forward and commits to project partners.
    - **Phase 3: Development –** Project partners are capitalized, and long-term lease agreements are finalized. Project scope, schedule and budget developed. Site development begins.

- **The formation of a new governance model for Phase 2.** Staff recommends adjusting the current steering committee which is focused on internal assessment and forming a new steering committee that leverages Metro and MERC leadership for decision-making. Our recommended committee includes two Metro councilors, two MERC commissioners and two community members who possess a development or capital finance background.

- **Continuation of the current Expo Future project** team in additional phases to ensure internal coordination and implementation.

STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION

This project supports Council's direction in finding the highest and best public use and long-term financial sustainability of Expo. The project initially began as an internal assessment of potential "Expo Futures" consistent with community and Tribal partner generated Guiding Principles. In spring 2021, Metro Council directed, and MERC affirmed, two changes in direction:

1. That staff remove any potential futures at this time that rely on "sell and invest" strategies and instead focus on "hold" and partner strategies; and

2. That staff seek external submittals (e.g.—proposals or ideas) that would be consistent with Expo's location, assets, needs, opportunities and the community-developed Guiding Principles.

In May 2021, Metro Council and MERC Commissioners held a joint meeting to discuss specific parameters of seeking external submittals and to provide additional direction to staff. Consultation from OMA and Metro's Procurement team resulted in the development of a Request for Expressions of Interest (RFEI) process to help ensure that Metro receives submissions from local or community-based interests as well as regional or national potential partners.

While these 2021 changes adjusted project scope, the goal of this project has not changed. The Guiding Principles, which were adopted in April and May 2022 by both MERC and Metro Council, provides an evaluation framework that helps inform how proposals maximizes community benefit, ensures long term financial sustainability, and honors the historical and cultural legacy of the site and surrounding area.

Staff and consultants have completed extensive community and Tribal Partner outreach and have established a Community Review Committee to evaluate each potential submittal with compliance with the Guiding Principles. Additionally, beyond compliance with the Guiding Principles, submissions will be reviewed by an internal staff team, a financial, a facility and economic review committee, and local and state government partners. At the conclusion of the RFEI process, Metro Leadership will make a recommendation on next steps.

The development of additional phases of the Expo Future project will be required to navigate the decision-making process and potential development phases of this project. It is anticipated that additional funding will be required in FY 23-24 and beyond for project management, community outreach, and strategic communications. Current project funding sunsets in June 2023.

BACKGROUND
The Portland Expo Center (Expo) attracts nearly 500,000 visitors a year to 100+ public trade shows and community events like home and garden, automotive, RV, antique, outdoor shows and concerts. Over the past five years it has generated an average of approximately $50 million in economic impact annually. Expo has 330,000 square feet of exhibit space in five exhibit halls on the 53-acre campus. That said, Halls A, B, and C celebrated their 100-year anniversary this year, and Halls D and E are 25 and 21 years old respectively.

Expo pays for its debt service out of operating revenues. While the team has been able to support this financial structure for some time, without significant investment in building replacement, long term prospects under the present business model do not appear favorable. Recognizing that Expo has significant capital needs, notably Halls A, B, and C, and no identified funding source to meet these needs over time, Metro commissioned a study from Hunden Strategic Partners in 2014.

The study included an analysis of Expo governance and operations, a local competitive market analysis, and the possible impact of a local new Headquarters Hotel. The scope of work also included an analysis of the existing physical conditions.

When considering a 30-year time horizon, the study recommended that the best return on investment was to raze Halls A, B and C and replace them with slightly smaller, more efficient and higher quality buildings. In addition, the study recommended adding a flexible ballroom and more breakout meeting rooms. At the time of the report, the estimated needed investment was approximately $63 million.

Following a presentation of findings by the Hunden Strategic Partners, a recommendation was made by the GM of Visitor Venues and CFO of Metro to explore other options as no source of funding was available or foreseen at the time of the presentation. During the period 2016-2019 a variety of potential options to increase and diversify revenue streams, including long-term tenancies and flexible outdoor space, were studied.

At the direction of Metro Council, the Portland Expo Center Development Opportunity Study (DOS) was launched in 2019 to assess the value and opportunities for the greatest public benefit of the 53-acre property and venue. The DOS will identify development options that could complement, support or replace the current operations at Expo. Any potential future for Expo needs to be financially sustainable. Since the DOS began, COVID-19 has significantly added to Expo's financial challenges as well as for many of our visitor venues.

While the COVID-19 pandemic brought uncertainty and disruption, Metro has prioritized the continuation of this project. The goal of this project has not changed, and remains a collaborative process focused on assessing potential futures for Expo.

The Development Opportunity Study and the Request for Expressions of Interest is guided by a 5-member Steering Committee consisting of Deputy Council President Christine Lewis, Commissioner Deidra Krys-Rusoff, Commissioner Damien Hall, DCOO Andrew Scott, and Expo Director Matthew Rotchford.

Many communities as well as partners in the greater Portland area and our region have unique and important historical and cultural ties to Expo and the land it is built upon. The nearby Vanport Floods and WWII Internment at the Portland Assembly Center have had lasting impacts on the Black, Indigenous and Japanese American communities. Metro and Expo recognize the past events and injustices that took place on or near the Expo property. Expo works with Vanport Mosaic and the Nikkei Legacy Center to ensure these occurrences are never forgotten.

Throughout the process, Metro has been engaging with key stakeholders and partners, including communities with historic and cultural ties and business interests. These include the Black, Indigenous and Japanese American communities, several Tribes, as well as Expo clients and business stakeholders in order to refine the project guiding principles.

The outcome of this stakeholder and partner engagement was the development of the Guiding Principles which were adopted by resolution by both MERC and Metro Council in April and May of 2022. Each potential future will be evaluated based on this community-driven, collaboratively crafted framework. Opportunities for input will continue during the Request for Expressions of Interest submission process, with a survey, meetings stakeholders and community-based organizations, and meetings requested by Tribal governments.

Additionally, to have a more complete picture of the benefits Expo consumer shows provide to our region, at the request of MERC Commissioners, Metro COO's office is funding an additional study to estimate the "downstream" economic benefits that accrue to businesses, with particular focus on minority or emerging small businesses, which sell products or services at Expo.

ATTACHMENTS

- Guiding Principles
- Review Committee Process

[For work session:]

- Is legislation required for Council action? ¨ No
- If yes, is draft legislation attached? ¨ No
- What other materials are you presenting today? N/A

Metro Internal

Reviews submission for completeness

Financial & Facilities

Considers the viability of proposed capital investment strategy and long-term sustainability of each proposal.

Performs facilities review to consider compatibility of concept with current knowledge of Expo Center facilities and operations.

Community Partners

Determines how each proposal aligns with the nine guiding principles.

Community review committee comprised of individuals who are connected to the region and representatives from CBOs.

Government Partners

Discusses a range of interjurisdictional considerations from permitting, zoning, environmental and other factors.

Also determines if there are any government funding and investment opportunities based on each proposal.

Tribal Partners

Tribal partners will have the opportunity to review RFEI submissions and forward comments to the COO.

Post Partner Review

COO Review and Recommendation

DOS Staff and Cascadia Partners develops a report for the COO

COO reviews/prepares presentation for MERC and Metro Council

PORTLAND EXPO FUTURE SCENARIO GUIDING PRINCIPLES

Updated March 17, 2022

What guiding principles should be at the root of how we weigh different development options?

CORE CENTRAL VISION

Honor Historical and Cultural Legacy

Ensure Financial Sustainability

Maximize Economic Prosperity

Create Financial and Community Wealth-Building Opportunities for Tribes, Urban Indigenous Community, Black Community, Japanese American Community, and Additional Communities of Color

Recognize, Respect, and Restore the Wealth and Interconnectedness of the Environment, Land, Water and People

- ONGOING ENGAGEMENT AND TRANSPARENCY
- SEEK OPPORTUNITIES FOR CULTURAL EXPRESSION, ART, STORYTELLING, AND LEARNING
- MAXIMIZE COMMUNITY BENEFIT AND CONNECTION FOR FUTURE GENERATIONS; PRIORITIZE INVESTMENT IN STRONGER COMMUNITES THAT ARE COMMUNITY LED AND CULTURALLY RESPONSIVE
- HONOR, RESPECT, PRESERVE CULTURE, LAND, WATER, AND HISTORICAL SIGNIFICANCE TO INFORM FUTURE GENERATIONS; DO NO HARM MOVING FORWARD
- SEEK SUSTAINABLE AND CLIMATE RESILIENT SOLUTIONS
- CENTER INCLUSIVE, CULTURAL AND ECONOMIC SUSTAINABILITY AND WELL-BEING
- REQUIRE PURPOSEFUL INCLUSION OF COMMUNITIES WHO HAVE PERSEVERED AND ARE THRIVING DESPITE THE ACTIONS OF COLONIZATION AND/OR THE HARMFUL IMPACTS OF POLICY AND PRACTICE

Metro PORTLAND EXPO CENTER

Portland'5 IGA Audit Results

Work Session Topics

Metro Council Work Session
Thursday, September 22nd, 2022

Portland’5 Intergovernmental Agreements:

Shared vision needed for long-term success

August 2022
A Report by the Office of the Auditor

Brian Evans
Metro Auditor

Simone Rede
Principal Management Auditor

Angela Owens
Principal Management Auditor

Knighton Award
for Auditing

Audit receives recognition

The Office of the Metro Auditor was the recipient of the "Distinguished Award" for Small Shops by Association of Local Government Auditors (ALGA). The winning audit is entitled "Affordable Housing Bond Preparedness: Develop Clear and Consistent Guidance to Improve Bond Operations." Auditors were presented with the award at the ALGA conference in Dallas, Texas in May 2022. Knighton Award winners are selected each year by a judging panel of peers and awards are presented at the annual conference.

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Brian Evans
Metro Auditor
600 NE Grand Ave
Portland, OR 97232-2736
TEL 503 797 1892, FAX 503 797 1831

MEMORANDUM

August 18, 2022

To: Lynn Peterson, Council President
Shirley Craddick, Councilor, District 1
Christine Lewis, Councilor, District 2
Gerritt Rosenthal, Councilor, District 3
Juan Carlos González, Councilor, District 4
Mary Nolan, Councilor, District 5
Duncan Hwang, Councilor, District 6

From: Brian Evans, Metro Auditor

Re: Audit of Portland'5 Intergovernmental Agreements

This report covers the audit of Portlan'5 Intergovernmental Agreements (IGAs). The purpose was to determine if oversight of IGAs that impact revenue and expenditure were effective. It assessed the governance structures created by IGAs and how they impact capital planning and spending priorities.

The audit found governance structures were difficult to navigate. The audit identified examples of unclear or unmet requirements, interpretation, and informality related to reporting, inventory, and insuring the buildings. In addition, information was insufficient to prioritize investments in P'5 facilities. None of the information reviewed during the audit provided assurance that there is reliable information and a common understanding about the cost of P'5 building deficiencies.

One potential root cause for these challenges was that IGAs have prioritized short-term over long-term needs. New strategies were needed to help P'5 accomplish its mission. COVID-19 halted business activities and created an uncertain financial future for P'5. Other organizational issues were ongoing during the audit that may impact operations, including a plan and funding for P'5 buildings, the level of support for local arts organizations and diversity, equity, and inclusion efforts.

We have discussed our findings and recommendations with Marissa Madrigal, COO; Steve Faulstick, General Manager of Visitor Venues; and Robyn Williams, Portland'5 Executive Director. I would like to acknowledge and thank all of the employees who assisted us in completing this audit.

Summary

Intergovernmental Agreements (IGAs) are contracts between governments. They are intended to define roles and responsibilities when public services are shared between different jurisdictions. Three IGAs gave Metro management responsibility and financial support for Portland'5 Centers for the Arts (P'5).

Effective governance structures outline responsibilities and rules, provide oversight, and support information sharing. Ideally, these elements would be clearly addressed in IGAs. This was not the case.

One potential root cause was that IGAs have prioritized short-term over long-term needs. Because IGA governance structures were complex, direction was unclear for managing some financial and reputational risks, information to prioritize investments in P'5 facilities was insufficient, and new strategies were needed to help P'5 accomplish its mission.

We found examples of unclear or unmet requirements, interpretation, and informality related to reporting, inventory, and insuring the buildings. Refining processes to carry out these requirements will increase consistency, better manage risk, and ensure the expectations of all IGA parties are clear. It will also put P'5 in a stronger position to negotiate future changes to IGAs.

Because IGAs did not provide clear direction for taking care of the buildings, we sought to determine if sufficient and reliable information was available to plan for and address P'5's capital needs. We found information was insufficient. It differed between sources and was difficult to interpret. As a result, it was hard to tell if capital improvement plans were based on identified needs.

Although the amount and timing of capital spending went mostly as planned, none of the information we reviewed during this audit provided assurance that there is reliable information and a shared understanding about the cost of P'5 building deficiencies. More transparency could give Metro leaders, IGA partners, and the public confidence that P'5 building needs are being addressed. Reaching agreement on what information will be used to prioritize capital investments will be important before pursuing potential funding sources.

We recommended documenting practices to manage financial and compliance risks and updating facility condition information to improve Metro's capital improvement planning and implementation. We also recommended developing strategies to manage priorities and allocate resources among critical issues facing P'5.

Background

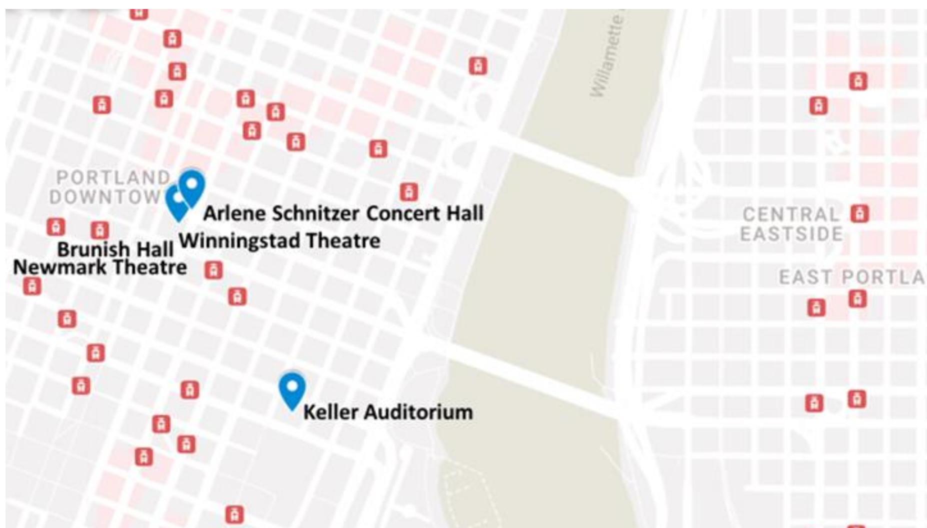
Intergovernmental agreements (IGAs) are contracts between governments. They are intended to define roles and responsibilities when public services are shared between different jurisdictions. Metro is responsible for managing and operating Portland'5 Centers for the Arts (P'5) through an IGA with the City of Portland (City).

P'5 operates five theaters in downtown Portland. These include:

- Keller Auditorium,
- Arlene Schnitzer Concert Hall,
- Newmark Theatre,
- Brunish Hall, and
- Winningstad Theatre.

The City owns the theater buildings. They were built between 1917 and 1987 and host a variety of shows, such as music, dance, and lectures. Newmark, Brunish, and Winningstad are housed in one building (Hatfield Hall).

Exhibit 1 P'5 operated five theaters in downtown Portland



Source: Auditor's Office visualization of P'5 facilities.

P'5 promoted some shows in-house through its P'5 Presents program, which included free summer performances. P'5 shows were also promoted by private companies like Live Nation and nonprofit organizations. Nonprofit clients benefited from reduced rental rates based on three tiers: resident companies, featured nonprofit groups, and all other nonprofit groups.

Resident companies received the largest rental rate reductions. As of 2022, there were five resident companies:

- Oregon Symphony,
- Portland Opera,
- Portland Ballet Theatre,
- Oregon Children's Theatre, and
- Portland Youth Philharmonic.

Three IGAs gave Metro management responsibility and financial support for P'5. These IGAs were developed over time and involved several governments. They included:

- Agreement Regarding Consolidation of Regional Convention, Trade, Spectator, and Performing Arts Facilities Owned and Operated by the City of Portland and the Metropolitan Service District (Consolidation Agreement),
- Oregon Convention Center Intergovernmental Agreement (Lodging Agreement), and
- Visitor Facilities Intergovernmental Agreement (Facilities Agreement).

Exhibit 2 Three IGAs provided financial support for P'5

Agreement	Signed/Last Amended	Parties	Agreement Amount
Consolidation Agreement	1989/2013	• Metro • City of Portland	$814,794
Lodging Agreement	1986/2020	• Metro • Multnomah County	$1,372,912
Facilities Agreement	2001/2019	• Metro • City of Portland • Multnomah County	$750,000

Source: Auditor's Office analysis of IGAs.

The Consolidation Agreement transferred management responsibilities of the Veterans Memorial Coliseum, Providence Park, and P'5 from the City to a commission established under Metro. The Metropolitan Exposition and Recreation Commission (MERC) was created as a result. The intent of the agreement was to transition the management of regional spectator facilities to one governing body.

The Lodging Agreement and the Facilities Agreement provided money from Multnomah County's Transient Lodging Tax to support regional tourism and economic development. P'5 was one of several recipients of funds under these agreements. Other recipients included the Oregon Convention Center and the Portland Expo Center.

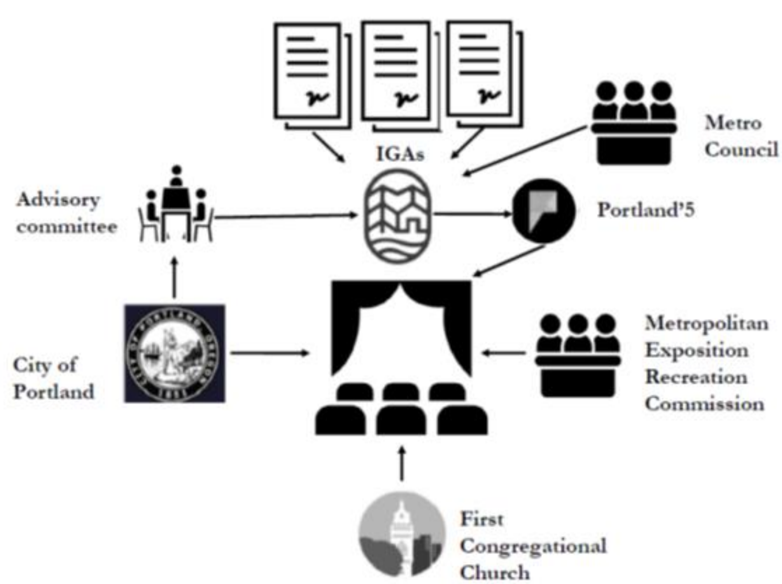
Under the Consolidation Agreement, Metro was also assigned the responsibility of a 99-year ground lease between the City and First Congregational Church (Church). The Church owns the land where Hatfield Hall was built. Among other things, the ground lease outlined the rent owed to the Church for use of the land. Rent amounts were updated every five years. In 2019, annual rent was updated to be about $315,000 which was nearly double the previous amount.

The Visitor Development Fund Services Agreement was an agreement between Metro, the City, Multnomah County (County), and Visitor Development Fund, Inc. It was formed to budget for and administer a portion of the funds provided by the Facilities Agreement for regional marketing and tourism. It did not provide direct funding to P'5, but did create a board with authority to impact P'5's Facilities Agreement funding.

Management of P'5 included a variety of oversight bodies. P'5 managed the buildings and operated the theaters. The P'5 Executive Director reported to Metro's General Manager of Visitor Venues. MERC advised Metro Council and was responsible for setting the strategic vision and providing citizen oversight of three Metro venues: the Oregon Convention Center, the Portland Expo Center, and P'5.

The City was responsible for appointing an advisory committee to advise Metro on all P'5 matters. The City's Spectator Venues and Visitor Activities program was responsible for overseeing City-owned spectator and performing arts facilities, including P'5.

Exhibit 3 P'5 depends on coordination among several organizations



Source: Auditor's Office analysis of IGAs, ground lease, budget documents, and Metro Code.

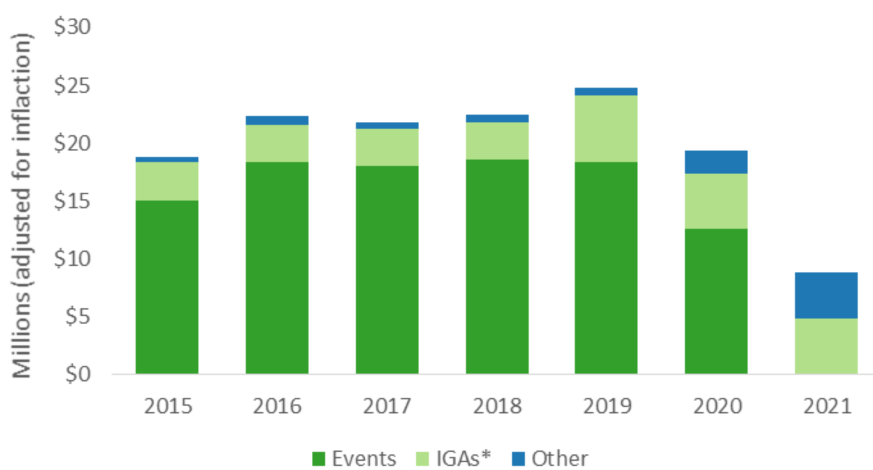
Management of IGAs also involved several parts of Metro. P'5's Executive Director was responsible for overall management of P'5, but some IGA requirements were carried by other parts of Metro. For example, because the Facilities Agreement and Lodging Agreement were funding agreements, Metro's Finance and Regulatory Services (FRS) department was involved in managing funding aspects of the IGAs.

Under the Consolidation Agreement, P'5 reported to the advisory committee and worked with the City program responsible for overseeing the buildings. The Lodging Agreement required Metro to report financial information to the County Finance Director. A financial review team of Metro, City, and County Chief Financial Officers (CFOs), and a separate board were tasked with monitoring and advising on Facilities Agreement funds. The team and board provided advice and recommendations to the County and had some decision-making authority over funding. Metro was responsible for reporting financial information to the financial review team and the board.

Most P'5 revenue was generated from events. This included admission, food and beverage sales, and space and equipment rent. COVID-19 halted business activities and created an uncertain financial future for P'5. In March 2020, Metro closed the theaters in response to the Governor's emergency order resulting from the pandemic. Event revenue dropped by about $6 million in FY 2019-20, and almost completely in FY 2020-21. In August 2021, P'5 reopened, but there was limited attendance. This meant there were fewer people spending money on concessions and merchandise.

IGAs provided another major source of revenue. From FY 2014-15 to FY 2020-21, IGAs made up about 20% of P'5 funding. For the most part, these funds were calculated using a base amount and adjusted annually for inflation. Revenue from the Lodging and Facilities Agreements decreased significantly in FY 2020-21 due to COVID-19. Overall IGA revenue remained steady, though, because of additional support provided by the City.

Exhibit 4 COVID-19 reduced event based revenue significantly in recent years

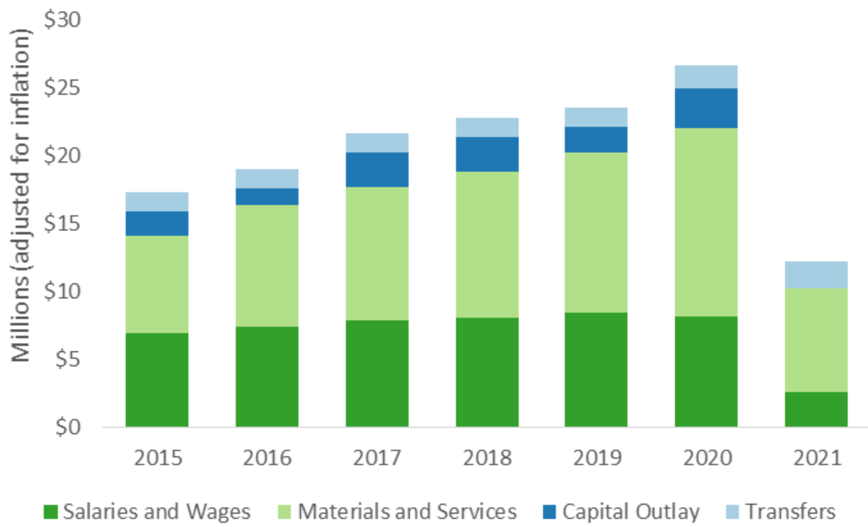


Source: Auditor's Office analysis of revenue data in Metro's financial system (PeopleSoft).
**IGAs represent funding from the City and County*

Expenditures were related to operating the theaters and taking care of the buildings. They included salaries and wages and materials and services needed to host events at P'5. Capital outlay was used to purchase new or add to existing capital assets. Some building maintenance and repairs were covered by materials and services and routine building maintenance was provided by department staff. Transfers included payments to Metro for P'5's use of internal services, like Human Resources.

Expenditures increased steadily between FY 2014-15 and FY 2019-20. Continued increases in FY 2019-20 were due to nearly a full year of normal operations and large investments in the buildings. About half of the expenditures in FY 2020-21 were related to building investments.

Exhibit 5 Total expenditures increased steadily prior to COVID-19



Source: Auditor's Office analysis of expenditure data in Metro's financial system (PeopleSoft).

In addition to managing financial disruptions, other organizational issues were ongoing during the audit that may impact its operations. P'5 proposed to start a visioning process for the theaters. P'5's mission shifted from focusing on subsidizing resident companies to supporting more diverse programming, such as education programs for schools serving higher proportions of low-income families.

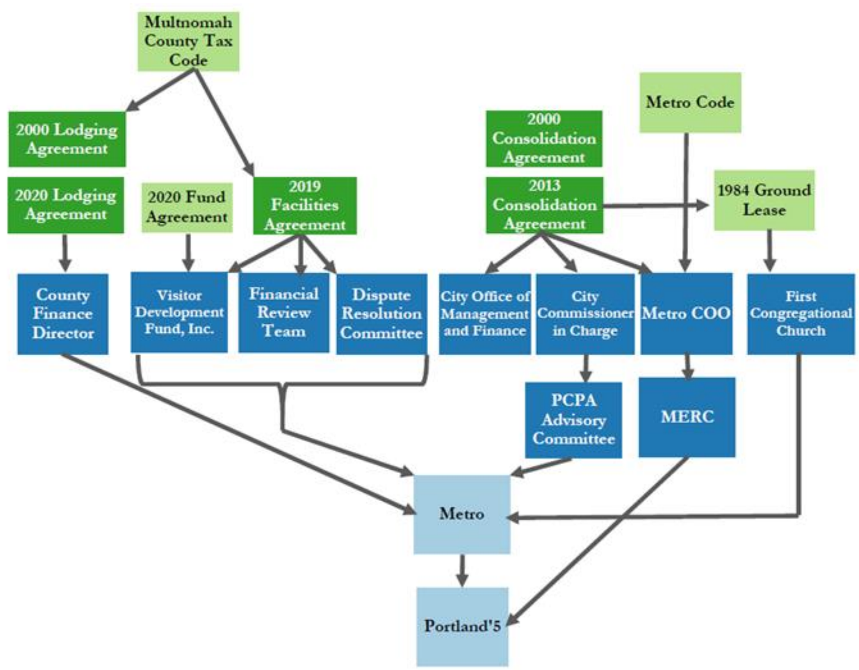
Metro was also in the process of determining how recent changes to accounting standards would impact how leased property was accounted for. FY 2021-22 was the first year governments will be required to disclose the value of lease agreements. Under the Consolidation Agreement, Metro had responsibility for a 99-year ground lease between the City and the Church. Preliminary information from Metro's external auditors indicated that the liability associated with the lease may need to be included in Metro's financial statements. Because of the length of the lease, the financial liability may be significant which could have an impact on Metro's net position. The actual amount of the liability will not be finalized until the external auditors complete their work in the fall of 2022.

Results

We found IGAs lacked clear rules to operate the theaters and take care of P'5 buildings. In instances where roles and responsibilities were clear, we found they were not always carried out as required by the agreements. Authority for making and implementing decisions was not always clear. Expectations for P'5 performance were vague. As a result, governance structures were difficult to navigate.

Effective governance structures outline responsibilities and rules, provide oversight, and support information sharing. Ideally, these elements would be clearly addressed in IGAs. We found this was not the case. We needed to review several IGAs, their previous versions, and other sources of information to develop a comprehensive understanding of Metro's responsibilities for operating P'5.

Exhibit 6 Complexity made the governance structure challenging



Source: Auditor's Office summary of IGAs, ground lease, the Fund Agreement, Metro Code, and Multnomah County Tax Code.

One potential root cause for these challenges was that IGAs have prioritized short-term over long-term needs. When the Consolidation Agreement transferred management responsibility of the theaters to Metro in 1989, it was issued with urgency to align with the opening of the Oregon Convention Center. The agreement focused on the technical components of the transfer, such as how personnel would be transferred from the City to Metro. It did not focus on how the theaters and buildings would be managed. Amendments to the Consolidation Agreement have been primarily in response to changes in other IGAs, or to transfer management of other City-owned buildings back to the City.

The Facilities Agreement amendments generally focused on immediate needs, such as replacement of the acoustical shell at the Schnitzer and work that was planned for the Oregon Convention Center and Oregon Convention Center Hotel. Lodging Agreement amendments were made to better align with other agreements.

Because IGA governance structures were complex:

1. Direction was unclear for managing some financial and reputational risks.
2. Information to prioritize investments in P'5 facilities was insufficient.
3. New strategies were needed to help P'5 accomplish its mission.

As P'5 continues to reopen after restrictions caused by COVID-19, it will be important to formalize internal processes to help manage through ambiguity and thrive as a regional resource. This will be especially important as the buildings continue to age, and if bonds are issued to renovate them.

Direction was unclear for managing some financial and reputational risks

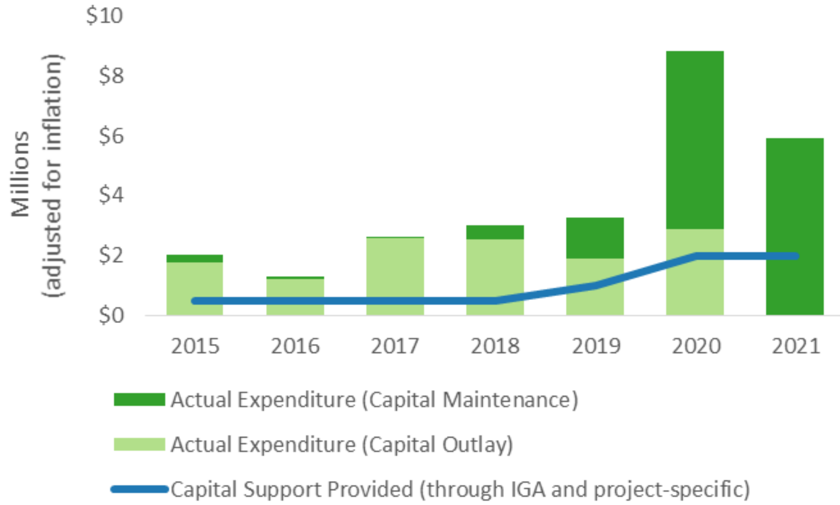
Unclear provisions in some IGAs were subject to interpretation and unmet requirements. This increased financial risk because informal agreements may not be upheld if staff or leadership changes. It increased reputational risk because IGA partners may base decisions on different assumptions depending on their knowledge of prior agreements. Although Metro took actions to reduce these risks, those efforts were not guided by formal rules.

A provision in the Consolidation Agreement outlined how P'5 was supposed to budget for and use funds the City provided. Half the money (about $500,000 in FY 2020-21) was supposed to be spent on operations support and the other half on capital support. These terms were undefined, which caused challenges. It was also unclear if the assumptions that led to this provision in the IGA were still relevant.

A series of emails were exchanged between Metro and City leadership in 2006 to clarify the use of these funds. The timing of these emails aligned with a Metro audit that questioned how the funds were budgeted. It was also referenced in a 2011 City audit and by Metro management during our review. However, P'5 has changed how it budgets and manages funds since 2006. More recently, the City has provided additional capital support for specific projects.

We analyzed spending over the past seven years and it appeared Metro met the intent of the IGA for capital investments. P'5 expenditures on what could be interpreted as capital support far exceeded the funding provided by the City to take care of the buildings. As the exhibit below shows, the amount of funding provided by the City through the IGA and for specific projects (solid blue line) was less than actual capital outlay and capital maintenance expenditures (stacked green bars). This underscored the importance of updating agreements to ensure expectations are clear about who is financially responsible for maintaining the buildings.

Exhibit 7 Actual capital expenditures exceeded support provided by the City



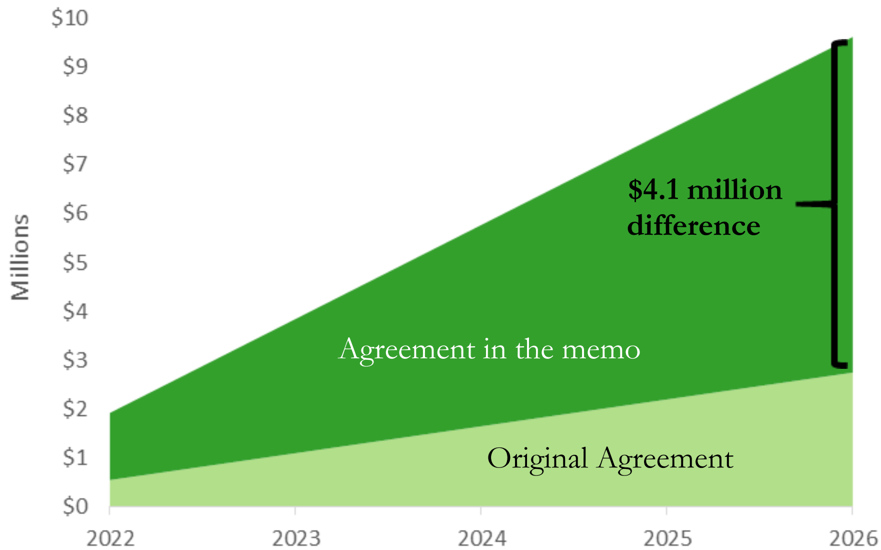
Source: Auditor's Office analysis of Consolidation Agreement and FY 2014-15 to FY 2020-21 expenditure data in Metro's financial system (PeopleSoft). Adjusted for inflation.

Another example where ambiguity required additional clarification arose from the Lodging Agreement. In that case, Metro worked with the County to clarify requirements about preventing a financial loss for P'5. Although clarification was more formally documented in a memo, it was specific to the impacts of COVID-19 and unclear how the agreement would apply in the future.

The section of the Lodging Agreement that provided funding for P'5 outlined a base amount ($1.37 million) that was supposed to be adjusted annually for inflation. In times of economic downturns, this amount could decrease because the funding came from hotel and motel taxes. For example, COVID-19 reduced tourism and fewer lodging taxes were collected. This decreased the FY 2020-21 amount P'5 received to about $550,000.

The IGA did not specify if future adjustments would be based on the reduced amount or on a minimum amount. Historically, adjustments were made on reduced amounts. However, the reduction caused by COVID-19 was more significant than those in the past. Under the IGA, we estimated P'5 would have received about $2.7 million between FY 2021-22 and FY 2025-26. Under the agreement documented in the memo, the amount could be about $6.8 million.

Exhibit 8 Metro reached agreement with its partners to prevent additional financial losses due to COVID-19



Source: Auditor's Office analysis of Lodging Agreement and revenue data from Metro's financial system (PeopleSoft).

We also noted examples of unclear or unmet requirements, interpretation, and informality related to reporting, inventory, and insuring the buildings. Refining processes to carry out these requirements will increase consistency, better manage risks, and ensure the expectations of all IGA parties are clear. It will also put P'5 in a stronger position to negotiate any future changes to IGAs.

The Facilities Agreement required Metro to report certain financial information to the financial review team and the board responsible for overseeing those funds. The Lodging Agreement required Metro to report financial information to the County Finance Director.

Required information under the Facilities Agreement was not provided. Specifically, Metro's reports lacked detail and performance measures to assess the use of $921,000 for P'5 operations support.

Financial reporting under the Lodging Agreement was adequate, but only because the reports Metro provided under the Facilities Agreement requirement included information about the Lodging Agreement funds and the County Finance Director was part of the financial review team.

Although P'5 generally provided sufficient information to the advisory committee established under the Consolidation Agreement, it infrequently informed them about decisions related to rental rates and charges. Increasing transparency about these decisions could help build trust and buy-in when P'5 has to make decisions about its rental rates and charges to ensure revenues and expenditures are aligned.

It was also challenging to determine if Metro met the requirement for providing an annual inventory of P'5 property. Under the Consolidation Agreement, Metro was supposed to provide an annual report of capitalized personal property to the City. This was not being done. But, Metro may still be meeting the intent of the IGA.

In 2019, City staff informed Metro staff that the inventory would be conducted every two years. This change to the IGA requirement was communicated by email and was not approved by IGA oversight bodies. However, the IGA also stated that Metro's inventory was supposed to be conducted in a way that was substantially similar to how the City conducts its own inventory.

In 2020, an inventory was not conducted due to COVID-19. This meant an inventory had not taken place since 2018. Between 2016 and 2018, the reported value of inventory increased by about $3.5 million. This suggested the inventory from 2018 may underreport the value of certain City property. Without an accurate inventory, it is more difficult to budget for maintenance, replacement, and renewal.

Metro staff expressed interest in continuing to conduct the inventory annually despite the City's request for reports every two years. Metro did not have formal processes in place to ensure this happened.

Regardless of the frequency, the process of developing the inventory would benefit from more formality. For instance, only certain property that could be capitalized for accounting purposes was supposed to be included in the inventory. Examples ranged from upgrades to lighting fixtures, to remodeling parts of the buildings, to the buildings themselves. This property typically has to meet certain requirements based on the type and value, but requirements and interpretations varied.

Finally, the process for insuring the buildings was complex and would benefit from additional clarity and formality. The Consolidation Agreement and ground lease outlined requirements to insure the buildings and property (property insurance) and events that happen in them (liability insurance). Several insurance policies provided this coverage. These policies were managed by P'5, Metro's risk management function within FRS, and through Metro's independent insurance agent.

Although Metro appropriately identified building values for its property insurance, the process for developing those values needed improvement. Specifically, the process was not formally documented, nor was it based on regularly scheduled building appraisals. These practices had the potential to undervalue the buildings.

Metro was also required to include the City and the Church as additional insureds for property insurance. We found evidence these partners were listed as additional insureds for liability insurance, but not for property insurance. This put Metro at risk of not meeting IGA requirements and could pose financial risks for all parties if they are not properly insured.

Information to prioritize investments in P'5 facilities was insufficient

Because IGAs did not provide clear direction for taking care of the buildings, we sought to determine if sufficient and reliable information was available to plan for and address P'5's capital needs. Governments should make capital investment decisions that are aligned with long-range plans so that public services can be delivered. We found information was insufficient to assess the condition of P'5 capital assets. As a result, it was hard to tell if capital improvement plans were based on identified needs.

Governments should establish a system for assessing their capital assets and then plan and budget for any capital maintenance and replacement needs. The departments responsible for managing capital assets should help determine the information to be tracked. Condition measures and performance standards are part of an effective capital asset management system.

We reviewed two key sources of information regarding P'5 facilities. The first was a series of facility condition assessments. The reports covered 10 years and were produced for the City. The second was P'5's capital improvement plan. The improvement plan covered five years and was developed through Metro's budget process with input from MERC.

Exhibit 9 Capital planning information differed between sources

	Facility Condition Assessment	**Capital Improvement Plan**
Frequency of updates	Unknown	Annual
Exclusions	Demand work orders (3 buildings); Corrective work orders (1 building)	Unknown
Codes	Deficiency Number; Parent; Classification	Project
Metrics	% of inventory typically maintained vs not maintained	None

Source: Auditor's Office analysis of Facility Condition Assessments (2015) and P'5 Capital Improvement Plans (FY 2014-15 to FY 2021-22).

The frequency of updates about P'5 facilities varied. This difference made it difficult to tell if the improvement plan was informed by the condition assessment. The improvement plan was updated every year. By contrast, the condition assessment was last updated in 2015. Ideally, long-range sources of information direct short-term plans. For example, a new assessment would have needed to be available in 2020 to direct planned improvements from FY 2021-22 to FY 2025-26.

Other details also varied between sources, which made comparisons between them challenging. These differences made it difficult to see how projects in the improvement plan would address needs identified in the assessment:

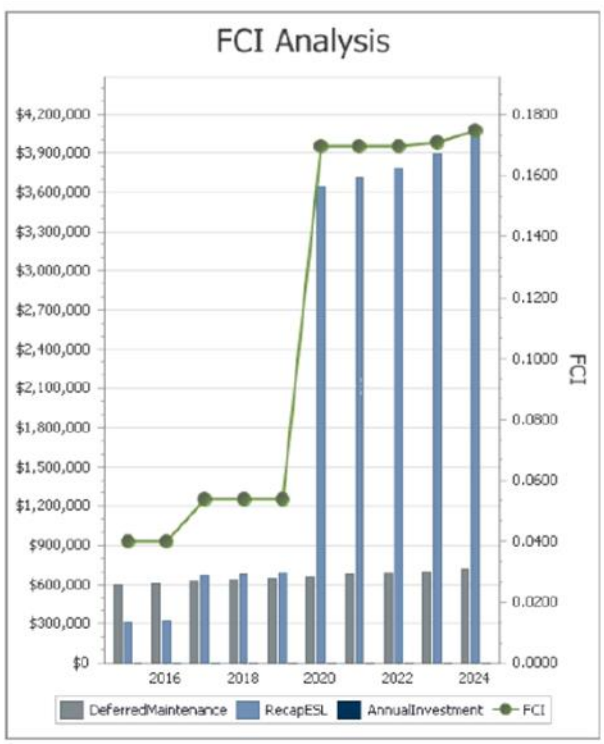
- **Scopes may have differed.** The condition assessment noted where information was missing, whereas the improvement plan did not. For example, none of the reports included demand work orders. And, Hatfield Hall's elevators, boilers, water heaters, and roofs were not captured. Without reconciling exclusions, it was hard to tell how comprehensive the improvement plan was, compared to the assessment.

- **Different codes were used.** Using different codes made items harder to track between sources. For example, the assessment used codes to identify deficiencies, inventory and their component parts, while the improvement plan only used codes to identify projects.
- **There were no common metrics.** The condition assessment reported the percent of inventory typically maintained and not maintained. The improvement plan did not contain any metrics.

In addition to establishing condition measures and performance standards for capital assets, governments should provide a "plain language" report on capital assets to elected officials and make it available to the public. That report should describe condition ratings and comparisons of actual to budgeted expenditures and performance data. The condition measures and related standards should be understandable.

The assessment presented a Facility Condition Index (FCI) analysis for each building. However, it did not define what FCI or other terms, such as RecapESL, meant. This made the analysis difficult to interpret. There was no target or desired level to judge the values it contained. Without these elements, it was hard to know what level of investment would be needed in future years.

Exhibit 10 Analysis of building condition was difficult to interpret



Source: "Requirements Forecast" Hatfield Hall Facility Condition Assessment (2015).

FCI is a condition measure that could be used to plan for capital asset maintenance and replacement. Reporting measures compared to established standards could help communicate the condition of P'5's capital assets to managers across Metro and other jurisdictions. This could also help illustrate how measures are used to plan and budget for capital maintenance and replacement.

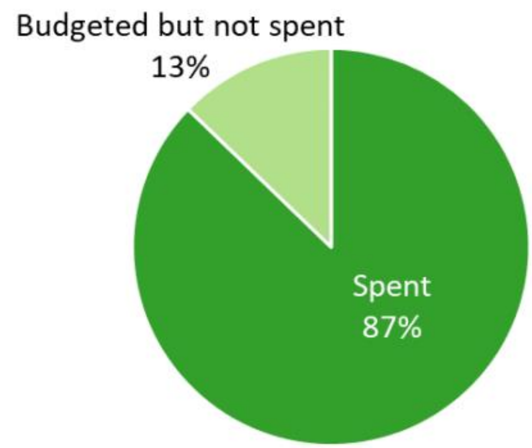
Planned and actual spending on P'5 facilities was mostly aligned

We compared information about actual and planned spending on P'5 facilities in several ways. We found the amount and timing of capital spending went mostly as planned.

First, we evaluated the amount P'5 planned and actually spent on capital improvements from FY 2014-15 to FY 2020-21. We found P'5 spent most of the amount it planned to during that period.

P'5 planned to spend about $32.2 million over seven years on projects that were budgeted in the first year of each improvement plan. P'5 actually spent about $28.1 million or 87% of that amount. That meant plans were somewhat useful for predicting how much total spending would occur.

Exhibit 11 Over seven years, P'5 spent 87% of the amount it budgeted in the first year of each improvement plan



Source: Auditor's Office analysis of Metro's financial system (PeopleSoft) expenditures data and P'5 Capital Improvement Plans, FY 2014-15 to 2020-21.

Second, we analyzed the timing of spending. We found a majority of the amount P'5 actually spent on projects that were budgeted in the first year of each improvement plan occurred in the years planned. That meant plans were somewhat useful for predicting when spending would occur. Of the $28.1 million P'5 actually spent, $20.5 million or 73% occurred in the year it was planned to be spent.

Some building deficiencies may not be addressed

The facility condition assessments identified seismic deficiencies, but there was limited information about their costs and significance in the reports we reviewed. The capital improvement plans did not identify if the projects were designed to address the deficiencies in the facility condition assessments. None of the information we reviewed during this audit provided assurance that there is reliable information and a common understanding about the cost of P'5 building deficiencies. A shared framework for prioritizing investments could help ensure that facilities' most critical needs are addressed, especially those that present potential health and safety risks.

Condition assessment reports lacked clarity about the cost of seismic deficiencies at P'5 facilities. This made it difficult to compare seismic deficiencies to other deficiencies. Each report identified one seismic upgrade per building with an estimated cost. However, each report also listed three to six seismic deficiencies per building, without cost estimates. When cost estimates were included, they were difficult to interpret.

Metro leaders were uncertain about the scale of repairs that P'5 facilities required. We heard that the Keller could be replaced completely. We did not hear that the Schnitzer needed as much attention, although the condition assessment identified twice as many seismic deficiencies at that building. Without up-to-date and complete information, it would be difficult for decision-makers to agree on which projects were most deserving of resources.

More transparency could give Metro leaders, IGA partners, and the public confidence that P'5 building needs are being addressed. Sufficient information is especially important because certain projects may interrupt facility operations. This could reduce P'5's ability to generate revenue during construction. Better information could also facilitate cooperation between IGA partners to determine how many resources would be required to renovate P'5 buildings.

Having a common plan for the future could make it easier to prioritize which P'5 projects to pursue and how to fund them. The IGAs did not provide guidance for making capital investment decisions at P'5. IGA partners did not have a long-term plan for improvement of P'5 facilities. When we asked for a plan showing 10 or more years, we received the condition assessment reports of P'5 buildings. Then we received a partial list of planned projects that spanned eight years. We were told that it did not capture smaller items that end up on the five-year plan. We were later told that there was a goal to develop a master plan for the facilities including periodic, detailed assessments.

Condition assessment reports produced for the City stated that the City's Asset Management Framework should be used to prioritize among the deficiencies identified. But, it was unclear if Metro used the assessment reports or the City's Asset Management Framework to determine what improvement projects to pursue.

Many governments establish master plans to provide a long-range vision and strategies to manage existing assets and desired improvements. A vision for facility investments would prove useful as P'5 recovers from the COVID-19 pandemic and determines how to fund large capital projects. Reaching agreement between Metro, the City and other parties will be important before pursuing potential funding sources. The Facilities Agreement allows the City or Metro to issue up to $40 million in bonds to renovate P'5 as soon as January 2024. If bonds are issued, it will be important to ensure decision-makers have updated information about building conditions with the estimated costs to improve them.

As P'5 recovers from the impacts of COVID-19, managing priorities will help fulfill its mission

After two years of reduced operations from COVID-19, P'5 faced challenges that were similar to the issues it faced 25 years ago after a financial crisis. A phased approach to fulfill the P'5 mission was identified at that time to:

- Increase services and management to ensure that the spaces are well maintained and used.
- Subsidize and nurture local arts organizations.
- Provide outreach activities, an extensive education program, and access for broad range of citizens.

The information in this report summarized the need for a plan and funding for P'5 buildings among IGA partners. It will also be important to consider other issues affecting the organization. During the audit, we analyzed information that corresponded to the challenges P'5 faced in the 1990s. While these are not all directly related to IGAs, we think they provide a helpful framework for prioritizing among potentially competing initiatives as P'5 prepares for the next 25 years and beyond.

Exhibit 12 A phased approach could help P'5 manage competing priorities

1998 Business Plan Priorities	2022 Challenges
Increase services and management to ensure that the spaces are well maintained and used	• Lack of a facility master plan to guide maintenance, renovations or new construction • Rising employee costs
Subsidize and nurture local arts organizations	• Undefined assumptions and strategy for the tiers and associated rental subsidies of local arts organizations • Potential additional revenue (estimated at $425,000 to $980,000 annually) by reducing the number of subsidized tiers for local arts organizations
Provide outreach activities, an extensive education program, and access for broad range of citizens	• Unclear goals and performance measures for Diversity, Equity and Inclusion (DEI) efforts

Source: Auditor's Office analysis of 1998 MERC Business Plan priorities and challenges as of April 2022.

Recommendations

To manage financial and compliance risks associated with P'5 IGAs, the General Manager (GM) of Visitor Venues, Finance and Regulatory Services (FRS) Director, and P'5 Executive Director should:

1. Formally document current practices to ensure agreement among IGA parties regarding the:
   a. Scope and level of detail of P'5 financial information reporting;
   b. Frequency of updates to P'5 capital asset inventories; and
   c. Expectations for insuring the buildings.

To ensure P'5 buildings are safe and continue to meet their mission, the GM of Visitor Venues and Deputy Chief Operating Officer (COO) should:

2. Work with IGA parties to reach agreement on what facility information will be used to evaluate the condition of facilities and prioritize capital investments.

To improve Metro's capital improvement planning and implementation, the GM of Visitor Venues; Deputy COO; P'5 Executive Director; Capital Asset Management Director; and FRS Director should:

3. Align the annual capital improvement plan with facility condition assessments;
4. Track project completion; and
5. Update facility condition information when capital improvement projects are completed.

To proactively manage potentially competing priorities, the COO; GM of Visitor Venues; Deputy COO; and P'5 Executive Director should:

6. Develop a cost-effective strategy to develop a regional vision for P'5 facilities, programs, and services.
7. Develop a strategy to allocate resources among critical issues facing P'5, including:
   a. Stewardship of public assets;
   b. Support for local arts organizations; and
   c. Diversity, equity and inclusion efforts.

Scope and methodology

The purpose of this audit was to determine if oversight of intergovernmental agreements (IGAs) was effective to manage Portland'5 Centers for the Arts (P'5). Our audit objectives were to determine:

1. If IGA governance structures were clearly designed and functioning effectively; and
2. If sufficient and reliable information was available to accurately plan for and address P'5 capital needs.

We focused our audit on implementation of P'5 IGAs that impact revenue and expenditure. Those included the:

- Agreement Regarding Consolidation of Regional Convention, Trade, Spectator, and Performing Arts Facilities Owned and Operated by the City of Portland and the Metropolitan Service District (Consolidation Agreement)
- Oregon Convention Center Intergovernmental Agreement (Lodging Agreement)
- Visitor Facilities Intergovernmental Agreement (Facilities Agreement)

To develop our audit objectives, we reviewed agreements governing Metro and its partners regarding P'5 and assessed their impacts on P'5 funding. We analyzed P'5 revenue and expenditures, including capital expenditures, and conducted limited tests of operating funding and funds raised for P'5. We also reviewed facility condition assessments and analyses of P'5 operating expenses and resident company subsidies.

To identify criteria, we reviewed adopted budgets, Metropolitan Exposition and Recreation Commission (MERC) and Metro Council legislation, as well as strategic plans, performance standards, written policies and procedures, and management reports. We also reviewed professional literature and prior Metro and City of Portland audits of P'5.

To identify risks, we interviewed Metro and P'5 managers as well as representatives from MERC and Portland Audit Services. We also attended meetings of Metro Council and MERC and reviewed meeting information from MERC and the P'5 Advisory Committee.

To assess IGA governance structures, we selected relevant provisions from IGAs, conducted interviews, reviewed supporting documentation, and estimated financial impacts of gaps between policies and practices. We also developed organizational charts based on selected provisions.

To assess P'5 capital planning efforts, we reviewed planning information and compared it to best practices from the Government Finance Officers Association in the following areas:

- Capital asset management
- Master plans and capital improvement planning
- Multi-year capital planning

To assess P’5 capital spending efforts, we reviewed information about actual improvements and compared it to planned improvements.

This audit was included in the FY 2021-22 audit schedule. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management response

Memo

Metro
600 NE Grand Ave.
Portland, OR 97232-2736

Date: Monday, August 15, 2022
To: Brian Evans, Metro Auditor
From: Marissa Madrigal, Chief Operating Officer
Steven Faulstick, General Manager of Visitor Venues
Subject: Management response to Portland'5 IGA Audit

Auditor Evans:

Thank you for the opportunity to respond to the audit of Metro's Portland'5 intergovernmental agreements. We appreciate the time and attention spent evaluating these agreements and developing recommendations. We agree that there is a need to clarify the roles and responsibilities where public services are shared across jurisdictions, improve documentation and reports to understand P'5 facility conditions, improve Metro's capital improvement planning, and develop strategies that manage and allocate resources for P5 venues. We support the findings and recommendations.

As previously shared, we are launching two projects that the audit results will inform significantly: Venues Visioning and the Keller Future. The timeline for each project starts in fiscal year23. We anticipate full completion of the audit recommendations within six months of each of those projects' completion date. As of August 2022, we expect completion of these projects by July 2024.

Following your recommendations, we will work with department stakeholders to update the agreements and the evaluation procedures. Below are our responses to specific audit recommendations where we identify the next steps.

Recommendation 1: To manage financial and compliance risks associated with P'5 IGAs, the General Manager (GM) of Visitor Venues, Finance and Regulatory Services (FRS) Director, and P'5 Executive Director should:

1. Formally document current practices to ensure agreement among IGA parties regarding the:
   a. Scope and level of detail of P'5 financial information reporting;
   b. Frequency of updates to P'5 capital asset inventories; and
   c. Expectations for insuring the buildings.

Response: Management agrees with this recommendation. Staff will document current practices as noted above and provide the documentation to the IGA parties.

Recommendation 2: To ensure P'5 buildings are safe and continue to meet their mission, the GM of Visitor Venues and Deputy Chief Operating Officer (COO) should:

2. Work with IGA parties to reach agreement on what facility information will be used to evaluate the condition of facilities and prioritize capital investments.

Response: Management agrees with this recommendation. With such a dynamic history, it is critical that all IGA parties agree to evaluation criteria, in order to make better decisions about future capital investments. Metro management will begin discussions with IGA parties in FY23.

Recommendation 3: To improve Metro's capital improvement planning and implementation, the GM of Visitor Venues; Deputy COO; P'5 Executive Director; Capital Asset Management Director; and FRS Director should:

3. Align the annual capital improvement plan with facility condition assessments;
4. Track project completion; and
5. Update facility condition information when capital improvement projects are completed.

Response: Management agrees with this recommendation. As part of Metro's ongoing to work to improve strategic asset management, staff will continue to work with the City of Portland as the property owner to identify capital needs in alignment with facilities condition assessment and the shared framework for prioritizing investments. Based on an updated shared understanding of responsibilities and priorities, this may identify capital improvements that will need to be incorporated in Metro's capital planning process. Improvements to project reporting will continue to be a high priority and staff in Capital Asset Management and FRS will prioritize better communicating project completion, information and aligning facility condition information with project completion reports.

Recommendation 4: To proactively manage potentially competing priorities, the COO; GM of Visitor Venues; Deputy COO; and P'5 Executive Director should:

6. Develop a cost-effective strategy to develop a regional vision for P'5facilities, programs, and services.
7. Develop a strategy to allocate resources among critical issues facing P'5, including:
   a. Stewardship of public assets;
   b. Support for local arts organizations; and
   c. Diversity, equity and inclusion efforts.

Response: Management agrees with this recommendation. The Venues Visioning project will include the development of a regional vision for P'5 facilities, programs and services. Management will develop a strategy to allocate resources for critical issues outlined in this recommendation as a part of the Venues Visioning project. The history, current status, and future direction of the above items will be evaluated in that process.

I want to express my gratitude to you and your team for performing this audit and for the opportunity to submit a management response.

Sincerely,

Marissa Madrigal, Chief Operating Officer

Metro

Office of the Metro Auditor
600 NE Grand Avenue
Portland, Oregon 97232
503-797-1892
www.oregonmetro.gov

Portland'5 Intergovernmental Agreements: Shared vision needed for long-term success

Why this audit is important

Intergovernmental Agreements (IGAs) are contracts between governments. They are intended to define roles and responsibilities when public services are shared between different jurisdictions. Three IGAs gave Metro management responsibility and financial support for Portland'5 Centers for the Arts (P'5). From FY 2014-15 to FY 2020-21, IGAs made up about 20% of P'5 funding.

The Newmark, Brunish and Winningstad Theatres are located in Hatfield Hall

Source: Jason Quigley, portland5.com

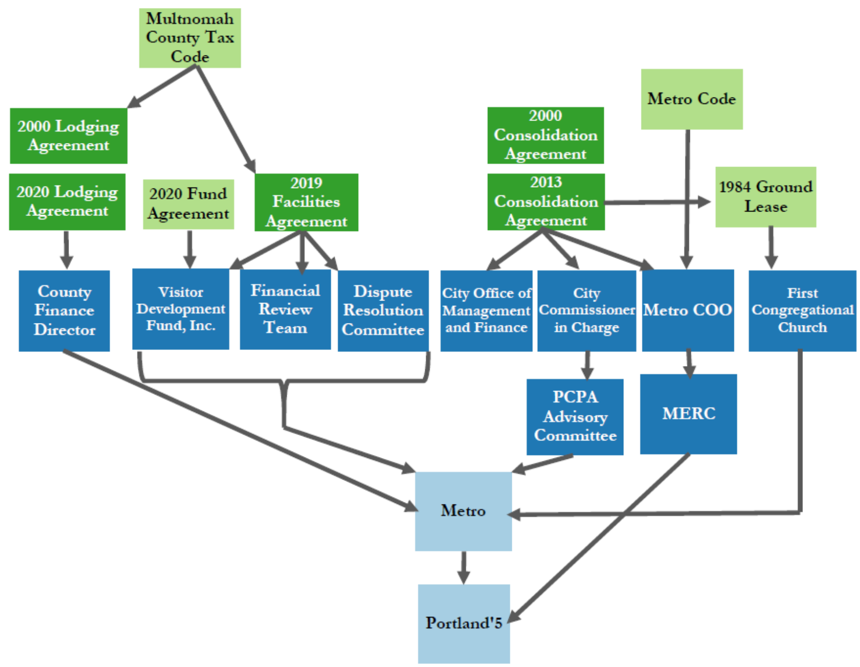
COVID-19 halted business activities and created an uncertain financial future for P'5. In addition to managing financial disruptions, other organizational issues were ongoing during the audit that may impact its operations.

We assessed IGA governance structures and P'5 capital planning and spending efforts. We focused our audit on implementation of P'5 IGAs that impact revenue and expenditure.

What we found

We found elements of effective governance structures were not clearly addressed in IGAs. As a result, governance structures were difficult to navigate. Because IGA governance structures were complex, direction was unclear for managing some financial and reputational risks.

Complexity made the governance structure challenging



Source: Auditor's Office summary of P'5 IGAs, ground lease, Visitor Development Fund Services Agreement, Metro Code and Multnomah County Tax Code.

We also found information was insufficient to assess the condition of P'5 capital assets. As a result, it was hard to tell if capital improvement plans were based on identified needs. A phased approach to fulfill its mission could help P'5 manage priorities as it recovers from the impacts of COVID-19.

What we recommend

We recommend documenting practices to manage financial and compliance risks and updating facility condition information to improve Metro's capital improvement planning and implementation. We also recommend developing strategies to manage priorities and allocate resources among critical issues facing P'5. These include: stewardship of public assets; support for local arts organizations; and diversity, equity, and inclusion efforts.

Venue Visioning Update

Work Session Topics

Metro Council Work Session
Thursday, September 22nd, 2022

METRO VENUES VISIONING

Date: September 8, 2022
Department: Visitor Venues
Meeting Date: September 22, 2022

Prepared by: Steve Faulstick
Presenter: Steve Faulstick
Length: 30 minutes

ISSUE STATEMENT

Metro manages the Oregon Zoo, Oregon Convention Center, the Portland Exposition Center, and Portland'5 Centers for the Performing Arts. The Oregon Zoo is the state's top-paid attraction and serves a vital role in Metro's conservation mission. The Oregon Convention Center is the largest convention facility in the Pacific Northwest, while the Portland'5 Centers for the Arts bring more than 1,000 music, theater, dance, and lecture performances to the region each year. The Portland Expo Center is the largest exhibition facility on the West Coast and is home to a diverse array of lifestyle shows, public exhibitions, and community events.

Prior to the pandemic, these popular destinations drew over 3.5 million people annually and served as a community gathering place for our region's residents. These four venues are powerful economic drivers for the state, generating nearly $28 million in taxes and nearly $877 million in direct, indirect, and induced spending. In addition, Metro's Visitor Venues employ thousands of people across the tri-county area.

Metro's Visitor Venues are a complex portfolio of Metro and city-owned or leased facilities. Each venue largely performs as its independent entity with a unique array of funding from sources like ticket sales, facilities rentals, concessions, voter-approved bond measures, transient lodging tax, general fund, philanthropic dollars, and other jurisdictional partner support. From the 100-year-old buildings at the Expo Center to the first convention center in the nation to receive a LEED-EB certification from the US Green Building Council, each venue has a range of facility types and long-term capital needs.

Recently, Metro's auditor completed an **audit of the Intergovernmental Agreements for the Portland'5 Centers for Performing Arts** and recommended a set of actions to manage financial and compliance risks and update facility condition information to improve Metro's capital improvement planning and implementation process. In addition, they recommended strategies to manage priorities and allocate resources among critical issues facing P'5, including stewardship of public assets, support for local arts organizations, and diversity, equity, and inclusion efforts.

One of the more urgent facility issues is the seismic study results impacting P'5s Keller Auditorium. Metro and the City of Portland have partnered with the private sector, who have all made financial commitments to ensure the safety and success of Keller's future productions and live events. While the Keller Auditorium is a component of the venue conversation, this project will run concurrently with the overall venues assessment. **The Keller Project** will explore the recommendations of the 2020 seismic study and upgrades to amenities such as backstage facilities and mechanical and production systems, creating a competitive advantage for touring events. Metro and the City of Portland will evaluate all options and seek community input throughout the process.

Additionally, Metro has committed $25,000 to develop a **regional cultural arts plan**. This project, led by the City of Portland's Arts Program, is a partnership between the cities of Portland, Beaverton, and Hillsboro, and Multnomah, Clackamas, and Washington counties. This multi-jurisdictional process aims to develop a clear vision, goals, and strategies for the region's arts and culture programs. And as you are aware, the **Expo Future project is underway to consider the options for the 53-acre site**.

The governance and oversight structure of these venues is complex. While Metro acts as the portfolio operator, depending on the venue, there is a wide range of invested partners, including the Metropolitan Exposition Recreation Commission (MERC), City of Portland, Multnomah County, Travel Portland, and the Oregon Zoo Board of Trustees. While our partners are critical to the success of our venue's ecosystem, Metro desires to perform an internal study and visioning process to clearly define Metro's priorities and role, understand the facility needs, and develop a path towards a long-term sustainability solution.

In anticipation that Metro Council and MERC will consider a set of options related to the future needs and commitments to these venues, **Metro leadership and the Visitor Venues team will embark on an 18-month "Venues Visioning" process which we expect to conclude in July 2024.**

ACTION REQUESTED
Through the end of the year, staff will develop the Venues Visioning scope of work for this project. We are seeking direction from Metro Council and MERC on the policy and values that will inform the development of this scope.

The following is a proposed timetable that will likely shift upon finalizing the scope of work:

Date	Benchmark
September 2022	Venues Visioning consultant secured. Phase 01 – Policy direction and values
December 2022	Scope, schedule, and budget finalized
January 2023	Venues Visioning process is launched
TBD	Phase 02 – Gap needs and opportunities assessment
TBD	Phase 03 – Community engagement and outreach
Q2 – 2024	Phase 04 - COO reviews VV findings and determines implementation strategy
July 2024	Set of recommended actions presented to Metro Council and MERC

IDENTIFIED POLICY OUTCOMES

Given that we are at the beginning of the Venues Visioning process, staff seek Metro Council and MERC's guidance on the oversight structure, values and outcomes of this project. We seek to deliver a clear set of recommendations to Metro Council and MERC in the following areas –

- Metro's role in supporting the venues ecosystem in urban, suburban, and rural areas.
- Long-term financial viability for our current venue portfolio.
- Long-term strategy for addressing the capital needs of the facilities, including potential funding sources.
- Compliance with Metro's sustainable building policies.
- Next steps in the implementation of our diversity, equity and inclusion initiatives around access to employment and our facilities.
- How we restructure our jurisdictional agreements and community partnerships to support the recommended changes.

POLICY QUESTION(S)

- Given that this project involves both Metro Council and MERC, what type of governance or oversight structure should be created to ensure alignment in decision-making?
- This project seeks to redefine Metro's role in supporting a vibrant, equitable venues ecosystem in the Portland metropolitan region. What initial values or policy guidance do you have for this process?
- Our venues have a unique array of jurisdictional and community partners who we plan to engage as part of this process. Are there specific points or questions that you would like to better understand as part of this process?
- This process aims to further define Metro's venues diversity, equity, and inclusion strategy in two areas – access to employment opportunities and access to our facilities. What values do we use to help frame this conversation?

STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION

The Venues Visioning process and concept was developed by Metro Council and staff to better understand the current and future status of Metro's, and the region's venues. The initial budget project of $150,000 was approved as part of FY 22-23.

BACKGROUND

The Venues Visioning project is in its initial stages of scope development. No policy decisions have been made at this time.

[For work session:]

- Is legislation required for Council action? No

Materials following this page were distributed at the meeting.

Expo Future Project:
Looking Ahead

Joint Metro Council & MERC Meeting

September 22, 2022

An overview of our conversation

1

Provide an update on where we are at in the RFEI process

2

Describe how we are thinking about additional phases of this project

3

Propose changes to the governance structure to better support these next phases.

Development of the Decision-Making Framework:

The Guiding Principles

- The Guiding Principles (GPs) started with a set of goals and principles developed by Metro Council and MERC
- In early 2020, key stakeholders met in a series of meetings to provide feedback and ideas for the GPs
- In 2021, all stakeholders convened in Community Conversations designed to further refine agreed-upon GPs
- In early 2022, Metro Council formally adopted the GPs as the guiding framework for the project

PORTLAND expo CENTER

2021

1. Sell & Invest
2. Hold & Replace
3. Hold & Repurpose
4. Hold & Complement

2022

Potential Futures

1. Hold & Replace
2. Hold & Repurpose
3. Hold & Complement

Phase 01: RFEI –
Delivering on Project Guiding Principles

Metro elected to pursue a Request for Expressions of Interest (RFEI) approach specifically to:

- provide flexibility in the process proposal and review process

- reduces the barriers by requiring fewer specific financial and constructional details in comparison to the traditional RFP

By the numbers:

- 53 acres
- 5 exhibition halls
- 14 loading doors
- 10 meeting rooms
- 1 commercial kitchen
- 2,805 parking spaces
- 333,000 square feet indoor building space
- 1,080,000 square feet outdoor space

- MAX Light Rail access w/ park-and-ride
- Easy access to I-5
    - 10-minute drive to downtown Vancouver
    - 15-minute drive to Downtown Portland
    - 20-minute drive from Portland International Airport
- Nearby developments
- Flexible IG2 Zoning

DEVELOPMENT STANDARD	IG2 LIMIT
Minimum and Maximum FAR	None
Maximum Height	No limit
Setback from Street Lot Line	25 ft
Maximum Building Coverage	85% of site area
Maximum Landscaping	15% of site area

Phase 01 Update

Request for Expression of Interest (RFEI)

PORTLAND expo CENTER

36-Week RFEI Timeline

We are here (week 15)

WEEK OF	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
	06/06	06/13	06/20	06/27	07/04	07/11	07/18	07/25	08/01	08/08	08/15	08/22	08/29	09/05	09/12	09/19	09/26	10/03	10/10
DUE DATES	06/07 RFEI LAUNCH!					07/13 Request for Clarification	07/20 Issue Clarification												10/12 RFEI CLOSE!
MEETINGS			RFEI Site Tours	Pre-Proposal Meeting		Review Panel Site Tours			Ad Hoc Tours										Review Panel Site Tours

WEEK OF	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36
	10/10	10/17	10/24	10/31	11/07	11/14	11/21	11/28	12/05	12/12	12/19	12/26	01/02	01/09	01/16	01/23	01/30	02/06	02/13
DUE DATES	10/12 RFEI CLOSE!	Proposal Check	Financial & Facilities Check		CRC & Government Proposal Overview		Holiday Week!	CRC Discussions		Government Review Committee Mtgs.		Holiday Week!	Finalize Report				Report to COO	COO Next Steps	
OTHER	Review Panel Site Tours	ULI			Tribal Government Proposal Overview		Tribal Government Review												

RFEI Timeline: ENGAGE

12209
Total Website Visits

3201
Unique Website Visitors

1051
Survey Respondents

25
Social Media Posts

25K+
Social Media Reach

Developer Outreach

- One-on-one meetings
- Portland Business Journal Transformer Awards
- Full page ad

Broader Community Outreach: Online Survey

- Increased racial diversity
- Wider geographic reach
- More income groups represented
- More age groups represented

RFEI Timeline: SUBMIT

Developer Partner Clusters

- Film, Music & Events
- Upcycling & Green Building Materials
- Current Show Producers
- Youth Sports Events
- Logistics and Traditional Developers

Community-based Orgs

- We have been engaging with two separate community groups who are specifically interested in addressing the “honoring the cultural legacy” guiding principle.
- These groups have expressed challenges about our process
- The flexibility of the RFEI process enabled us to pivot midstream to be more responsive to community needs

RFEI Timeline: Evaluate

Metro Internal

Reviews submission for completeness

Financial & Facilities

Considers the viability of proposed capital investment strategy and long-term sustainability of each proposal.

Performs facilities review to consider compatibility of concept with current knowledge of Expo Center facilities and operations.

Community Partners

Determines how each proposal aligns with the nine guiding principles.

Community review committee comprised of individuals who are connected to the region and representatives from CBOs.

Government Partners

Discusses a range of interjurisdictional considerations from permitting, zoning, environmental and other factors.

Also determines if there are any government funding and investment opportunities based on each proposal.

Tribal Partners

Tribal partners will have the opportunity to review RFEI submissions and forward comments to the COO.

Post Partner Review

COO Review and Recommendation

Project team and Cascadia Partners develops a report for the COO.

COO reviews/prepares presentation for MERC and Metro Council

Discussion

Next Phases of the Expo Future Project

Expo Future Project: Staff Recommendations

The development of two additional phases:

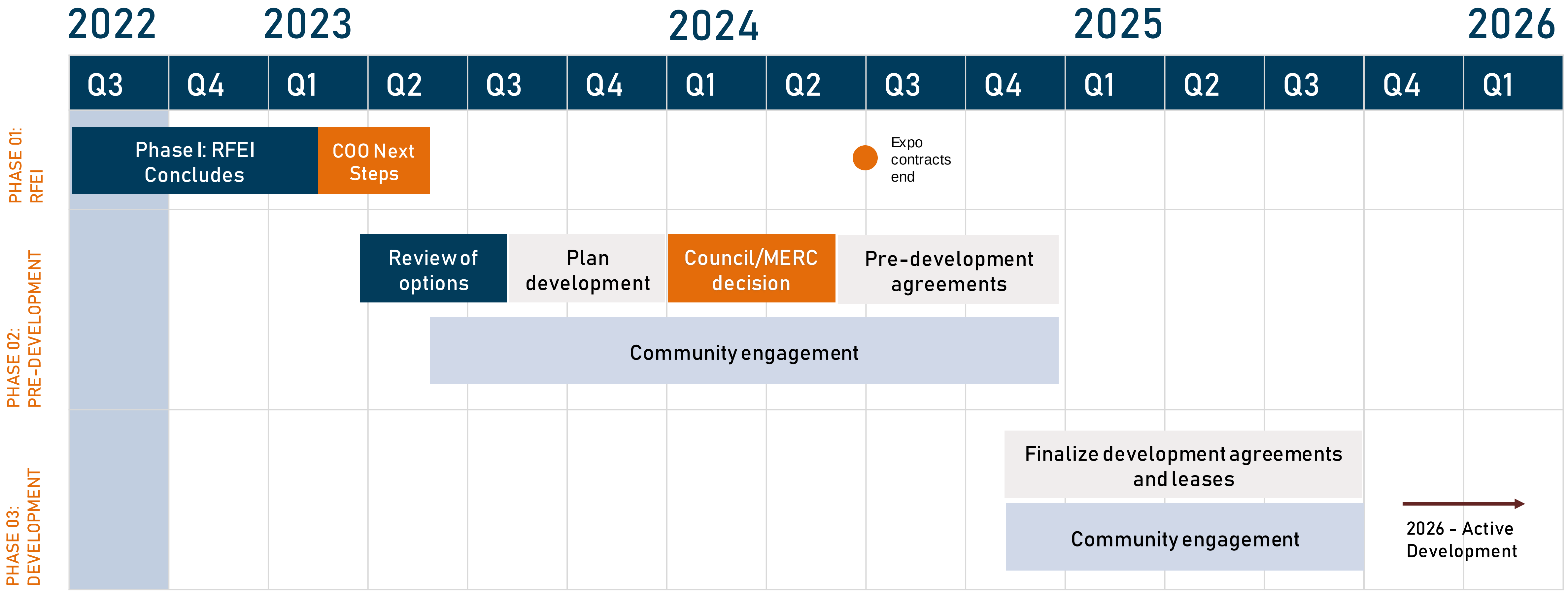
- **Phase 2: Pre-development** – reviews the direction from Metro Leadership, evaluates external factors that impact the project, selects a path forward and commits to project partners.

- **Phase 3: Development** – Project partners are capitalized, and long-term lease agreements are finalized. Project scope, schedule and budget developed. Site development begins.

- **The formation of a new governance model for Phase 2.**

- **Continuation of the current Expo Future project team** in additional phases to ensure internal coordination and implementation.

Expo Future Project: Proposed Additional Phases



Expo Future Project: New Project Structure

	Current	Proposed
GOVERNANCE	• 1 Councilor • 2 MERC Commissioners • Deputy COO • Expo Center Exec Director	• 2 Council Members • 2 MERC Commissioners • 2 Community Members
PROJECT TEAM	• Council policy staff • GM of major projects • Expo center executive director & staff • OMA • Procurement • Tribal relations (GAP-D) • Development project manager • Strategic communications • Visitor venues staff	• Council policy staff • GM of major projects • Expo center executive director & staff • OMA • Procurement • Tribal relations (GAP-D) • Development project manager • Strategic communications • Visitor venues staff • Community engagement

Discussion

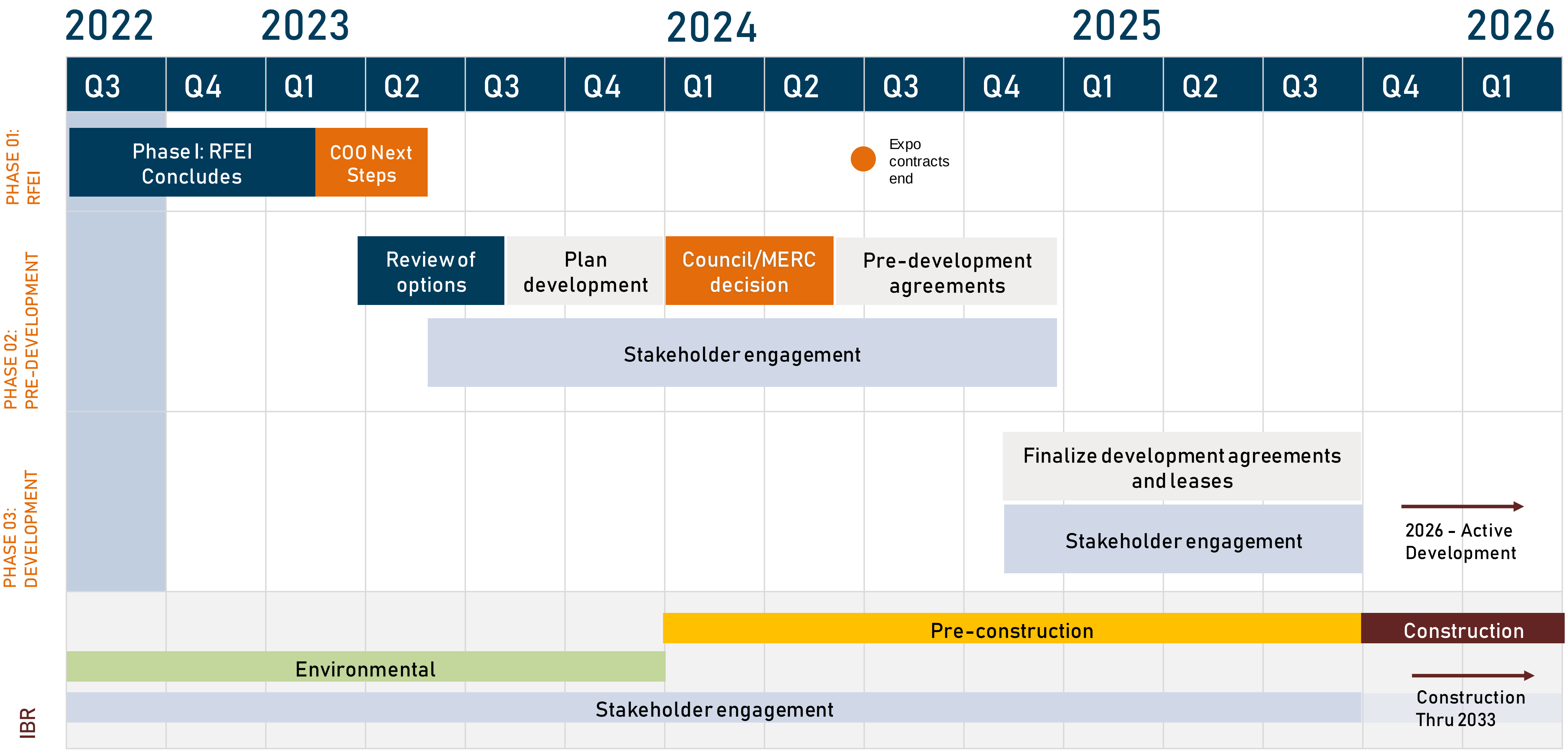
Policy Questions

1. What project phase(s) should follow the review of submittals?
2. What governance structure should the project team report to in future phase(s)?

Do Not Use

Reference Slides

Expo Future Project: Additional Phases



Metro's Visitor Venues Creates Community and Economic Prosperity

Redefining Metro's role in making the tri-county region a world-class destination for residents and visitors

September 22, 2022

Our Goals

- The value Metro Venues bring to the Region
- The regional conversations taking place about venues, arts and culture
- The Venues Visioning process and desired outcomes
- Discussion and feedback with Metro Council and MERC Commission about the venues scope

Visitor Venues Creates Economic Prosperity

3.5 million annual visitors who generate nearly **$28 million in taxes** and about **$877 million in spending**.

Metro

Venues Values Reflect Metro's Values

- The Oregon Zoo's **conservation** mission provides grants to support local and global conservation efforts on issues that affect biodiversity and the health of the planet.
- Expo Center and Oregon Convention Center have both responded to **community** need by hosting mass COVID-19 testing and mass vaccination sites.
- Portland5 Centers for the Arts makes transformative arts experiences and **education** possible by distributing more than 9,000 tickets to Title1 students and educators each year.
- All venues are dedicated to **DEI** as evidenced by our commitment to FOTA hiring practices and expanded access to venues.

City of Portland

Regional Arts & Culture Investments

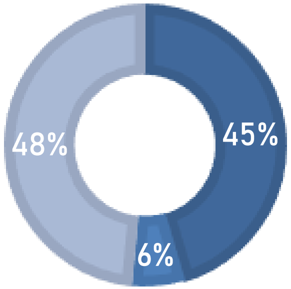
$15.1M

Annually*

Special Appropriations

Arts Tax

Percent For Arts



Arts Education
Direct to five school districts

Portland'5
Consolidated agreement

RACC
RACC administration, grants and programs

1992

The City adopted Arts Plan 2000 and established the Regional Arts & Culture Council as our primary arts service provider in 1995.

2012

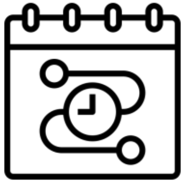
Voters approved the Arts Tax fund to support Portland school teachers and art-focused non-profit organizations in Portland.

* City spent an additional $3.2M in emergency assistance and $4.3M in capital projects for the Arlene Schnitzer Concert Hall

Venues Visioning

Inspired by conversations with the Metro Leadership Team

Led by Steve Faulstick, GM Visitor Venues, partnership with Metro Council, MERC Commission, Visitor Venues leadership, Regional Leadership and Community Stakeholders



Metro Leadership & Venues Team will embark on an 18-month process to evaluate the state of all visitor venues across the region.

How to we make the Metro region a **world-class destination** for residents and visitors?

Metro

Metro's Regional Planning Projects

	Venues Visioning	Keller Auditorium	Regional Cultural Arts Plan	Expo Future Project
Led By	Metro	Co-Led by Metro & City of Portland	City of Portland (informed by Metro and other regional partners)	Metro
Description	Revisiting Metro's role and vision in supporting the venues ecosystem. Assess long-term financial viability for our current venue portfolio. Identify opportunities and address inequities.	Metro and the City of Portland will evaluate all options for the Keller Auditorium and seek community input throughout the process.	Assess the state of arts and culture in our region. Identify opportunities and address inequities.	Determine how Metro should leverage the Expo site to maximize public benefit and seek financial sustainability. Work with community to honor the cultural legacy of the site and address inequities.
Outcome	Clear vision and path for Metro's venues programs. Plan for long-term sustainability of our facilities. Recommendation on governance and funding models.	Recommendation to City Council next steps on the Keller Auditorium project.	Develop a clear regional vision with goals and strategies that achieve that vision. Recommendations on governance and funding models.	In alignment with the Guiding Principles, decide on the highest, best use for the Expo site. Secure development partners that bring investment capital to the project.

Metro's Regional Planning Projects: Timeline

What Happens in 2024?

1. **Policy Recommendations**
   - Metro's role in supporting the venues ecosystem in urban, suburban, and rural areas.
   - Compliance with Metro's sustainable building policies.
   - Next steps in the implementation of our diversity, equity and inclusion initiatives around access to employment and our facilities.

2. **Funding recommendation for the long-term financial viability for our current venue portfolio and other programs Metro supports.**
3. **How we restructure our jurisdictional agreements and community partnerships to support the recommended changes.**

Venues Visioning Timeline

Phase 1	Phase 1	Phase 2	Phase 3	Phase 4	Next Steps
Sept-Dec 2022	January 2023	TBD	TBD	Q2 - 2024	June 2024
•✓ Venues Visioning consultant secured. • Develop a scope of work, budget and timeline	• Launch the Venues Visioning process	• Gap needs and opportunities assessment	• Community Engagement Outreach	• COO reviews VV findings and prepares recommendations	• Set of policy recommendations and actions presented to Metro Council and MERC.

We are here

Questions?

Metro

Policy Questions

1. This project seeks to redefine Metro's role in supporting a vibrant, equitable venues ecosystem in the Portland metropolitan region. **What initial values or policy guidance do you have for this process?**

2. Our venues have a unique array of jurisdictional and community partners who we plan to engage as part of this process. **Are there specific points or questions that you would like to better understand as part of this process?**

3. This process aims to further define Metro's venues diversity, equity, and inclusion strategy in two areas – access to employment opportunities and access to our facilities. **Are these the right outcomes to focus on? What does success look like? What does access to Venues look like?**

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