



# Portland'5 Intergovernmental Agreements:

*Shared vision needed for long-term success*

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August 2022  
A Report by the Office of the Auditor

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## 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's Intergovernmental Agreements**

This report covers the audit of Portland's 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's Executive Director. I would like to acknowledge and thank all of the employees who assisted us in completing this audit.

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## Summary

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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's Centers for the Arts (P5).

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 P5 facilities was insufficient, and new strategies were needed to help P5 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 P5 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 P5'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 P5 building deficiencies. More transparency could give Metro leaders, IGA partners, and the public confidence that P5 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 P5.

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## Background

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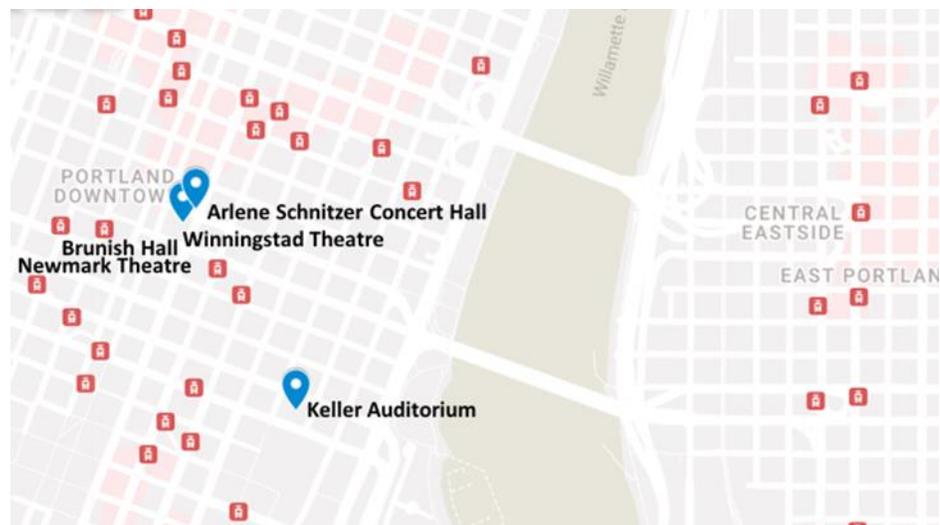
Intergovernmental agreements (IGAs) are contracts between governments. They are intended to define roles and responsibilities when public services are shared between different jurisdictions. Metro is responsible for managing and operating Portland's Centers for the Arts (P's) through an IGA with the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

P's 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's operated five theaters in downtown Portland



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

P's promoted some shows in-house through its P's Presents program, which included free summer performances. P's 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	<ul style="list-style-type: none"> <li>• Metro</li> <li>• City of Portland</li> </ul>	\$814,794
Lodging Agreement	1986/2020	<ul style="list-style-type: none"> <li>• Metro</li> <li>• Multnomah County</li> </ul>	\$1,372,912
Facilities Agreement	2001/2019	<ul style="list-style-type: none"> <li>• Metro</li> <li>• City of Portland</li> <li>• Multnomah County</li> </ul>	\$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.

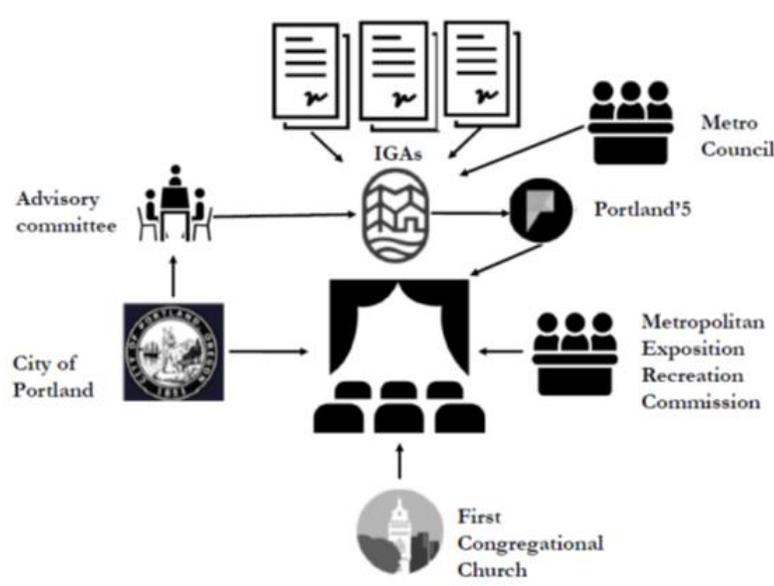
Under the Consolidation Agreement, Metro was also assigned the responsibility of a 99-year ground lease between the City and First Congregational Church (Church). The Church owns the land where Hatfield Hall was built. Among other things, the ground lease outlined the rent owed to the Church for use 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**



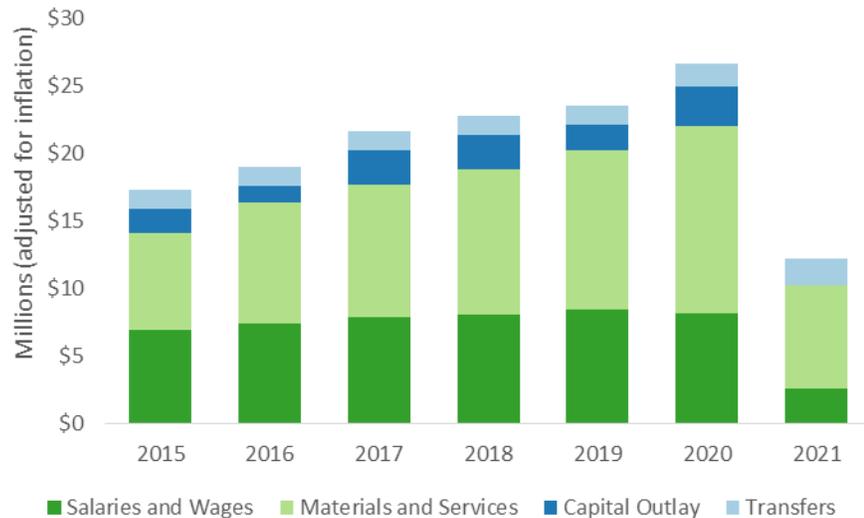
Source: Auditor’s Office analysis of revenue data in Metro’s financial system (PeopleSoft).  
 \*IGAs represent funding from the City and County

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.

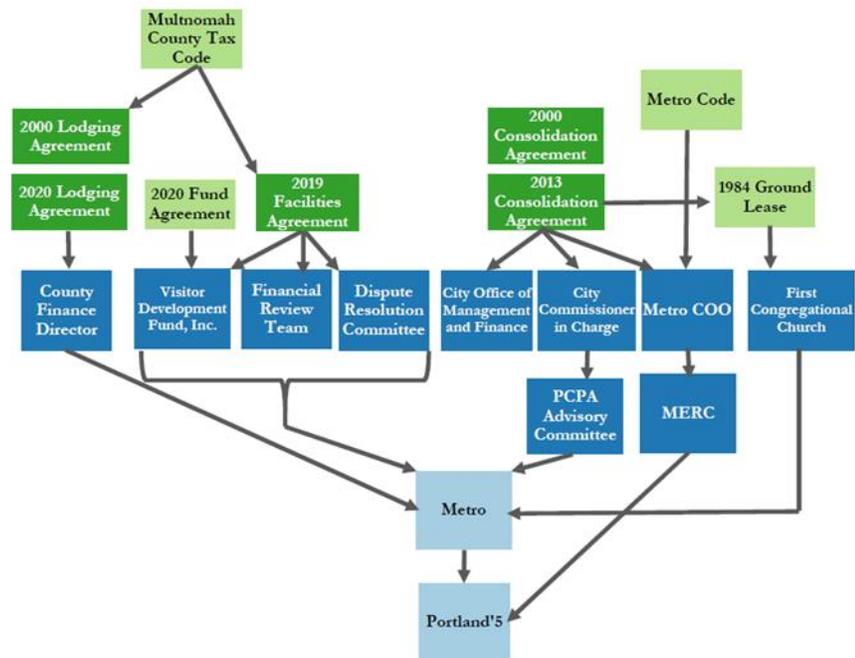
Metro was also in the process of determining how recent changes to accounting standards would impact how leased property was accounted for. FY 2021-22 was the first year governments will be required to disclose the value of lease agreements. Under the Consolidation Agreement, Metro had responsibility 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**

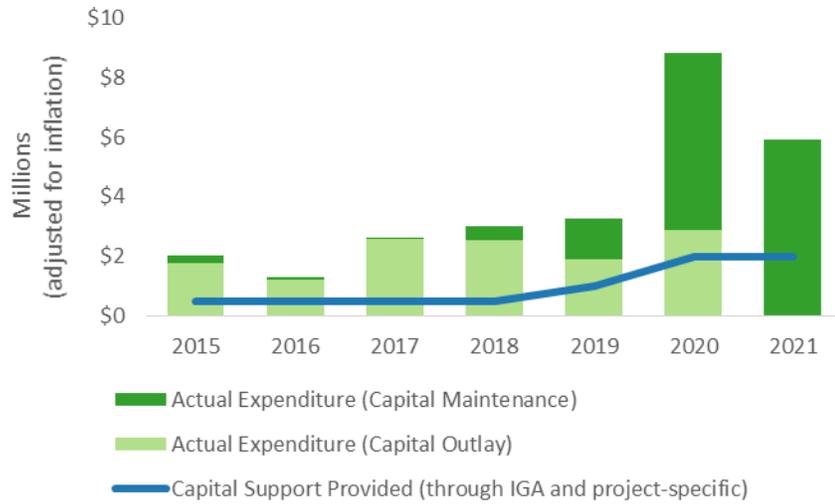
Unclear provisions in some IGAs were subject to interpretation and unmet requirements. This increased financial risk because informal agreements may not be upheld if staff or leadership changes. It increased reputational risk because IGA partners may base decisions on different assumptions depending 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



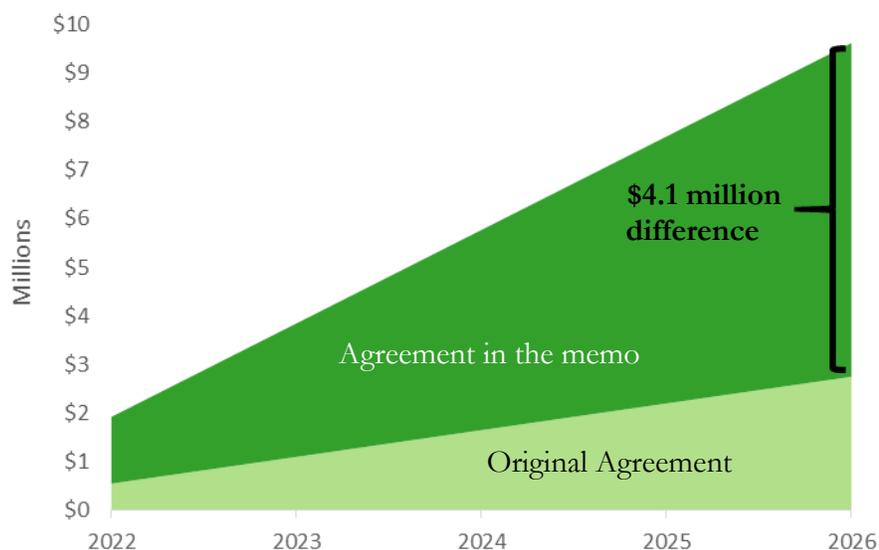
Source: Auditor's Office analysis of Consolidation Agreement and FY 2014-15 to FY 2020-21 expenditure data in Metro's financial system (PeopleSoft). Adjusted for inflation.

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
<i>Frequency of updates</i>	Unknown	Annual
<i>Exclusions</i>	Demand work orders (3 buildings); Corrective work orders (1 building)	Unknown
<i>Codes</i>	Deficiency Number; Parent; Classification	Project
<i>Metrics</i>	% 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

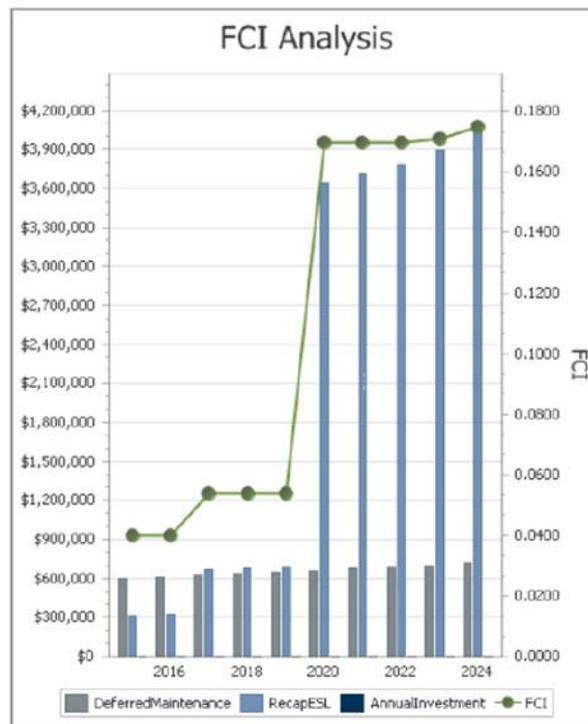
captured. Without reconciling exclusions, it was hard to tell how comprehensive the improvement plan was, compared to the assessment.

- **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).

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

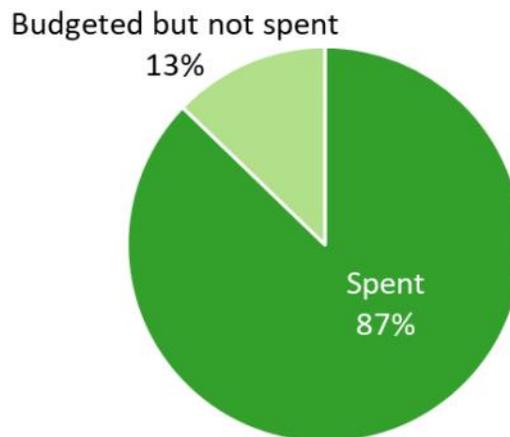
FCI is a condition measure that could be used to plan for capital asset maintenance and replacement. Reporting measures compared to established standards could help communicate the condition of P'5's capital assets to managers across Metro and other jurisdictions. This could also help illustrate how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

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.

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

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.

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	<ul style="list-style-type: none"> <li>• Lack of a facility master plan to guide maintenance, renovations or new construction</li> <li>• Rising employee costs</li> </ul>
Subsidize and nurture local arts organizations	<ul style="list-style-type: none"> <li>• Undefined assumptions and strategy for the tiers and associated rental subsidies of local arts organizations</li> <li>• Potential additional revenue (estimated at \$425,000 to \$980,000 annually) by reducing the number of subsidized tiers for local arts organizations</li> </ul>
Provide outreach activities, an extensive education program, and access for broad range of citizens	<ul style="list-style-type: none"> <li>• Unclear goals and performance measures for Diversity, Equity and Inclusion (DEI) efforts</li> </ul>

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

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## Recommendations

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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.

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## Scope and methodology

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The purpose of this audit was to determine if oversight of intergovernmental agreements (IGAs) was effective to manage Portland's 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.

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# Management response

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## Memo

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's IGA Audit

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Auditor Evans:

Thank you for the opportunity to respond to the audit of Metro's Portland's 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 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’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.

**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



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