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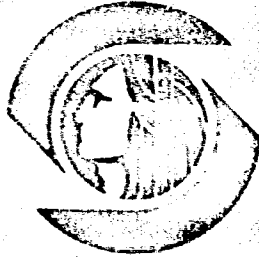
BUILDING DEPARTMENT'S REAL PROPERTY
LEASING Survey Report, prepared by
CITY COUNCIL AUDIT STAFF, July 1979

Honorable President:

Your _____
to which was referred the within _____
would respectfully report that we have considered the same and respect

Filed November 30, 1983
Tim Hill, City Comptroller
By Rosert J. Mittelstadt
Deputy

ACTION OF THE COUNCIL	
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CITY OF SEATTLE

**BUILDING DEPARTMENT'S
REAL PROPERTY LEASING**

**A SURVEY REPORT TO THE
SEATTLE CITY COUNCIL**

**PROGRAM EVALUATION ANALYST, PETER MOY
DIRECTOR, LEGISLATIVE AUDITS, SHIRLEY KOLM
EXECUTIVE DIRECTOR, LAURINE BREKKE**

JULY 1979

292863

THE BUILDING DEPARTMENT'S REAL PROPERTY LEASING

INTRODUCTION

To accomplish City purposes and goals, the City of Seattle acquires, maintains, leases, and disposes of real property. Leasing property to and from persons and organizations is only one aspect of the City's property management program. The City leases property to others when the City has acquired property and does not intend to use it for several years, or when the City's use has ended and no decision to surplus it or to use it for another City purpose will be made for several years. The City presently leases property from others to meet departments' real property needs, such as office space.

In March of 1979 the Council added several short projects to the annual work program, including an audit survey and preliminary evaluation of the City's leasing practices for real property. The purposes of an audit survey are to identify problem areas and to obtain information to be used in planning and performing a detailed review. The research done is not as extensive or as detailed as a complete audit. Consequently, further analysis may indicate that some of the problems are not as significant as we now believe. At the same time, more work might also lead to new issues and problems.

SCOPE

The audit survey was completed during June and July 1979. To become familiar with the City's leasing practices, we reviewed relevant ordinances, resolutions, procedures, and policies; interviewed personnel from the Building, Water, Parks and Recreation, and City Light Departments; and made on-site visits and observations. Because of the time allotted, and because the Building Department had the most leases, we decided to concentrate most of the survey work on the Building Department. This report has been reviewed by the Building Department, the Office of Management and Budget, the Department of Community Development (DCD), and the Law Department. Comments by DCD, Building and Law were considered in preparing this report.

SUMMARY OF FINDINGS AND CONCLUSIONS

After reviewing the Building Department's leasing activities, we believe that improvements can be made to the department's management of leasing activities. Our audit survey revealed the following problems and concerns.

1. Short-term space planning is not being done as part of the Annual Budget process, and as a result, the Council does not have a realistic leasing cost figure to review in the budget. Departments do not submit additional space estimates with their budget, and instead request space throughout the year causing the Council to make decisions incrementally (see page 6).
2. No specific space standards and guidelines have been developed by the Building Department, and the department's informal space standards and guidelines do not allow an evaluation of whether existing open space is being used effectively and does not help departments plan their space requirements. A consultant will be asked to develop specific space standards as part of an analysis for long-term office space requirements. (See page 7)
3. City property is leased to individuals, organizations, and businesses without an open, public process. The City obtains tenants when an individual contacts the Building Department about using a specific property; the rent is then

established based upon negotiations with the prospective tenant. As a result, the general public is not aware of the opportunity to use City property and cannot be assured that the highest possible rent is obtained by the City. Because of the present practices, the State Department of Revenue assessed the City \$62,354 in additional leasehold excise tax because the City could not show that the rent was the maximum attainable (see page 8-9).

4. There is little coordination between the Building Department's Accounting Section and Real Estate and Property Management Section. Consequently, the leasing agent did not know that one tenant did not pay 1978 rent and was not aware that a report he believed was needed was available (see page 9).
5. The lack of periodic inspections of City property allows tenants to neglect property maintenance. For example, we found that a City-owned house was poorly maintained. The grass was at least three feet tall, and no one was occupying the house (see page 10).
6. Leases with tenants providing mutual and offsetting benefits (MOB) are not administered in a timely manner. As a result, the Council has not reviewed the leases as required by ordinance and the leases are not finalized until late in the lease year (see page 12-13).
7. The Building Department has not completely followed the 1977 and 1978 Statements of Legislative Intent concerning tenants providing mutual and offsetting benefits. When tenants have not paid the rent or promptly negotiated leases, the department has not taken action to evict the tenant because of the community services provided (see page 12-13).
8. The Building Department has not determined whether all of the properties occupied by tenants providing mutual and offsetting benefits should be sold. Since the 1978 Statements of Legislative Intent which asked the department to recommend which properties should be sold, the Building Department has sold only one property and has cancelled two leases (see page 13).
9. Some properties presently leased to MOB tenants for which the Building Department has major maintenance responsibilities are hazardous and will be costly to repair. In one case the cost could be \$200,000 and in another case a City-owned house has been vacated because electrical deficiencies pose a life safety threat (see page 13-14).
10. The Department of Community Development has not completed development policies for the Mercer Corridor as requested by the Council in January 1978. Consequently, efforts to declare property surplus and reduce the number of leases have been delayed (see page 13).
11. City properties used for billboard advertising have inadequate lease documentation and, in one case, the billboards on City property violate the Building Code. As a result, the Building Department has not formally authorized the use of the property and has cited itself for violating the Building Code (see pages 14-15).

SUMMARY OF RECOMMENDATIONS

Although we did limited work, we have developed several recommendations to alleviate the problems cited in the report. The recommendations are addressed to the City Council, the Office of Management and Budget, the Department of Community Development, and the Building Department.

We recommend that the City Council:

Decide with assistance from the Law Department whether billboard advertising on City property other than greenbelts is an appropriate use. If it is appropriate, the Council should direct the Superintendent to obtain signed leases, assure that all billboards conform with City codes, and assess rents at market levels. If the Council decides billboard advertising is not appropriate, it should direct the Superintendent of Buildings to cancel all leases or agreements with tenants who use City property solely for billboard advertising.

We recommend that the Office of Management and Budget:

Require departments to estimate their additional office space needs when preparing their future budgets.

We recommend that the Department of Community Development:

Establish a priority for completing the Mercer Corridor study by the end of 1979 and report to the Council on any further delay.

We recommend that the Building Department:

1. Establish specific space standards and guidelines for estimating office space needs and for evaluating the City's space requirements.
2. Develop policies and procedures to establish a more open and public process for leasing City property.
3. Develop policies and procedures for establishing rent levels and documenting the negotiations and methods used to determine the rent.
4. Establish a formal reporting process between the Accounting Section and the Real Estate and Property Management Section to provide information on costs, revenues, and delinquent rents for each City property being leased to individuals, organizations, and businesses, excluding those leased by City departments.
5. Establish a periodic inspection program for all properties which are either vacant or leased to others and not used by City departments.
6. Determine whether properties used by tenants providing mutual and offsetting benefits are needed for operating purposes by departments and if they are not needed, sell the properties as stated in Resolution 25723.
7. Before requesting major maintenance funding for properties occupied by tenants providing mutual and offsetting benefits, assure that the property will be used in the future as stated in Recommendation 6.
8. If properties used by MOB tenants are still needed, use long-term leases instead of annual leases.

The remainder of this report is organized as follows:

- Chapter I -- Background
- Chapter II -- Leasing Property for City Purposes
- Chapter III -- Leasing City Property

CHAPTER I

BACKGROUND

The City's real estate and property management is, generally, the responsibility of the Building Department. Formerly by City Charter and currently by ordinance, the Superintendent of Buildings manages, controls, and maintains an inventory of the City's public buildings and lands, except for those belonging to the parks, library, lighting, and water systems. Seattle Center, the Board of Public Works and the Engineering Department also manage real property, street and alley rights-of-way, and sewer and solid waste utility property. The City Council has specifically authorized the Superintendent of Buildings to lease property to and from other persons. Under Ordinance 107634, the Superintendent is authorized to execute new leases and to extend the terms of existing leases for property acquired by the City. In the past, numerous individual ordinances have been adopted to authorize leases of certain property. The Building Department has leased City property for a variety of uses, which include parking, billboards, housing, office and warehouse space, and storage.

To help meet the office space and property needs of departments, the Superintendent, under Ordinance 107252, has the authority to negotiate and execute real property leases for acquiring the necessary real property facilities. The ordinance also specifies limits for the lease terms and the maximum cost per square foot for different types of real property. Once the Building Department obtains the property, it leases or subleases the space or property to other City departments and agencies. For example, the Building Department leases the space in the Arctic Building to various departments.

The Parks Department, City Light, and the Water Department also have real property management programs. These departments generally do not use leases when allowing someone to use their property, but instead use permits which can be cancelled on 30 days notice. A major difference between the permit and leasing practices is that those departments using permits are usually allowing concurrent use of their property. For example, the right-of-way for City Light transmission lines might also be used as grazing land or farm land. Because these departments have a different system, our survey was limited to the Building Department.

Within the Building Department, real property leases are the responsibility of the Real Estate and Property Management Section. For handling the entire property management functions of acquiring, leasing, and disposing of property, the past budgets for the Real Estate and Property Management Section have been the following:

<u>Expenditure Category</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Personal Services	\$ 162,466	\$ 204,031	\$ 188,447
Supplies	1,250	1,142	1,150
Other Services and Charges	656,315	816,840	1,172,880
Capital Outlay	<u>41,700</u>	<u>41,300</u>	<u>41,300</u>
TOTAL	<u>\$ 861,731</u>	<u>\$ 1,063,313</u>	<u>\$ 1,403,777</u>

One person in the section handles most of the leases; the existing number of leases in 1979 and the 1979 budgeted revenue or cost associated with those leases are the following:

<u>Type of Lease</u>	<u>Number of Leases</u>	<u>Revenue or (cost)</u>
Property leased from other persons and organizations	39	\$ 1,059,000
Property leased to City Departments	53	\$ 2,991,000
Property leased to non-City persons and organizations	82	\$ 81,000
TOTAL LEASES	174	

CHAPTER II

LEASING PROPERTY FOR CITY PURPOSES

To meet the downtown office space needs of City departments, the Building Department leases about 163,421 square feet of space from downtown property owners. This practice has both short and long-term implications for the City's property management program. Short-term space needs can be satisfied effectively through leasing, but as short-term needs become greater and more permanent, leasing may become a less desirable option. The issues concerning the City's long-term office space needs are not addressed in this report, but have been addressed in a May 22, 1979 Central Staff memo to members of the Personnel and Property Management Committee. Our audit survey did not concentrate on leasing property from others, but we did find that short-term space planning is not being done as part of the budget process. Consequently, budgeted amounts for leasing costs do not adequately reflect what the actual leasing cost might be during the year.

ADDITIONAL SPACE COSTS ARE NOT BUDGETED

Two new leases for additional space were approved by the Council, which were not a result of any 1979 Council action increasing programs or staff, but were a direct result of the 1979 Annual Budget approved in December 1978. Because these additional space needs were not anticipated in the Annual Budget, additional funds were requested; the request represents a significant increase in the leasing budget. In one case, the additional space will cost about \$100,156 in 1979, while the second lease will cost about \$9,207. Building Department officials told us that approval for a third lease will be requested in the near future, adding approximately \$34,460 to the 1979 leasing costs. These three leases will add \$143,821, a 13% increase, to the \$1,059,000 already budgeted in 1979 for leasing office space.

Departments have apparently not followed Standard Operating Procedure (SOP) #100-016. According to this SOP, requests for additions and/or alterations to building space under the Building Department's jurisdiction should be submitted in writing to the Superintendent of Buildings two months after the annual departmental budget submittal date, which would be about the first week in September. According to the Building Department's Assistant Superintendent for the Municipal Facilities Division, departments do not submit such information, and as a result the Building Department's budget only reflects the costs of keeping the existing space. He said until a request is made, the Building Department has no idea how much additional space will be needed by departments for the year. Requests are submitted throughout the year.

Because departments do not seem to be following the SOP, and the SOP is not enforced, the Council does not have a realistic leasing cost figure to review during the budget. Construction or purchase of an office building could be less expensive in the long term than leasing, and we believe it is important that the City not make leasing decisions on a piecemeal basis. Recent budgets for leasing space have been increasing substantially due to higher leasing costs and greater use of leased space. The following table shows the Real Estate and Property Management Section's budgets for leasing space in 1977, 1978, and 1979.

<u>Year</u>	<u>Leasing Budget</u>	<u>Percent Increase Over Prior Year</u>
1977	\$ 612,765	
1978	\$ 767,000	25.2
1979	\$ 1,059,000	38.1

SPACE STANDARDS AND GUIDELINES ARE NEEDED

To do better space planning, more specific space standards and guidelines are needed. The Superintendent of Buildings is responsible for ensuring that implementation plans and specifications reflect established space standards, resource availability, and the general context of the ongoing City building space plans. At the present time, the Building Department uses an informal standard of 100 square feet per person. To be useful for planning, space standards are often developed for each different occupational group of employees such as professional and skilled craft. The Building Department's informal standard of 100 square feet per person is not precise enough to evaluate whether existing space is being effectively used and to help departments plan their space needs. The Assistant Superintendent for the Municipal Facilities Division said that in planning for long-term office needs a consultant would be asked to develop specific space standards.

CHAPTER III

LEASING CITY PROPERTY

Many City-owned properties are not being used for City purposes, and until decisions are made concerning their use or disposition, the City leases the property to private citizens, non-profit groups, and businesses. The Building Department's Real Estate and Property Management Section has been responsible for managing the leased properties. Our audit survey found that the leasing of City property is not an open public process, that management of the leased properties needs improvement, that major capital improvements are needed for some properties, and that City property is being used for an activity (i.e., billboards) apparently inconsistent with Council intent and policy.

LEASING CITY PROPERTY WITHOUT AN OPEN PUBLIC PROCESS

Impartiality was a contracting principle frequently discussed in the joint Council-Executive study of procurement contracting. Impartiality can be achieved through an open solicitation of interested and qualified persons and through the use of fair and consistent evaluation criteria. The leasing of City property is not done by using an open, public process, and consequently, the City does not seek tenants or establish rents through a public process. To achieve an impartial leasing system, we believe that the public should be notified of available properties and that when rental rates are established the negotiations and procedures should be done under circumstances established by public record. Because of the present practices, the State Department of Revenue assessed the City \$62,354 in additional leasehold excise tax, and the public cannot be assured that the City is receiving the highest possible rent.

The Building Department has no Standard Operating Procedure for obtaining tenants or establishing rents. There has not been any advertising or bid process for seeking tenants for City properties. In the past, the City has obtained tenants when individuals contacted the Building Department about using a specific piece of property. Once it is established that the interested party wishes to lease the property, the rent is negotiated between the prospective tenant and the Real Estate and Property Management Section's leasing agent. The leasing agent and appraisals are only done for properties which have a substantial dollar value, and based on the appraisal, if one is done, and the negotiations, the rent figure is established.

In January 1979, the City was audited by the State Department of Revenue to determine whether the proper leasehold excise tax for 1976-1978 had been collected and reported according to Chapter 82.29A of the Revised Code of Washington (RCW). The leasehold excise tax is a tax on the rent paid by private lessees using publicly owned property. The audit reported that the City should have collected an additional \$62,354 in leasehold excise tax for 34 properties, but \$43,410 or 70 percent of the additional tax is related to the Freeway Park garage. The manager of the Real Estate and Property Management Section said the City paid the additional tax and the Law Department is reviewing whether the City should take action to appeal.

According to the auditor from the Department of Revenue, the City owed more tax because it did not use a public process (e.g., competitive bidding) and could not prove it had obtained the highest possible rent. RCW 82.29A.020(2) states that if a leasehold interest is not established through competitive bidding, negotiated according to statutory requirements regarding the rent payable, or negotiated under circumstances established by public record which clearly shows that the rent was the maximum attainable, the

Department of Revenue may establish a taxable rent computation for determining the tax payable. The Department of Revenue used the County Assessor's appraisals and a ten percent rate of return to determine the rent and then applied the tax rate to that rent. For the eleven properties where the Department of Revenue used this formula, the taxable rent was always higher than the City's established rent. The Department of Revenue auditor believed the City could have collected an additional \$103,246 in rent between 1976 and 1978.

Either the City is not obtaining an adequate rate of return, or the appraisal value and the State's rate of return are not realistic. The audit report stated that it appeared that negotiated rents were not the maximum amount possible. We found two cases where rents seemed low or when negotiations appear to have led to lower rents.

- The leasing agent told us that one tenant subleases space rather than using it for his own purposes. If a tenant does not use the space and subleases the space for a higher rent (which seems to be the only rational economic principle), it appears that the City must not be charging enough rent.
- To initially meet the intent of the leasehold excise tax laws, the City in June 1976 reevaluated the rents paid by one tenant using nine properties for billboard advertising. The new rents that were established were 66 percent higher per month than the rents previously paid and added an additional \$168 per month for all nine properties. The leasing agent said that he attempted to adjust the rates to reflect the value of the property, but had little experience in establishing rents for billboards. The tenant agreed with increases for three properties and was willing to accept a slight increase for another property. For five other properties, the tenant did not agree on the increases. Regarding the increases, the tenant stated the following: "The amount of rental that is paid to a property owner for an outdoor advertising structure is directly related to the income that is produced by the display surface. The rentals that you have requested for the most part far exceed the amount that can be paid to any property owner by any outdoor advertising company for the units that are presently on the property and still operate the structures profitably." After negotiating with the tenant, the City increased the rents, but instead of charging the \$168 additional per month, the City only charged an additional \$70 per month for all nine properties.

MANAGEMENT OF LEASED PROPERTY NEEDS IMPROVEMENT

Management of leased City property needs improvement. During the audit survey, we identified the following management problems.

- The leasing agent did not have accurate and current information on costs and revenues generated from leased properties.
- The leasing agent does not periodically inspect all the properties to see if they are adequately maintained and kept in good condition.
- Leases involving mutual and offsetting benefits have not been handled in a timely manner, and the Council did not review the 1978 leases as required by ordinance.
- Actions to declare property surplus and to reduce the number of properties and leases have been delayed.

Better Financial Information Needed

The leasing agent receives little financial information from the Building Department's Accounting Section regarding the leased properties, and consequently he may not always know who has paid the rent or how much the City is spending on a particular property for maintenance. Better coordination and communication is needed between the Building Department's Accounting Section and the leasing agent. The following two examples illustrate the problem.

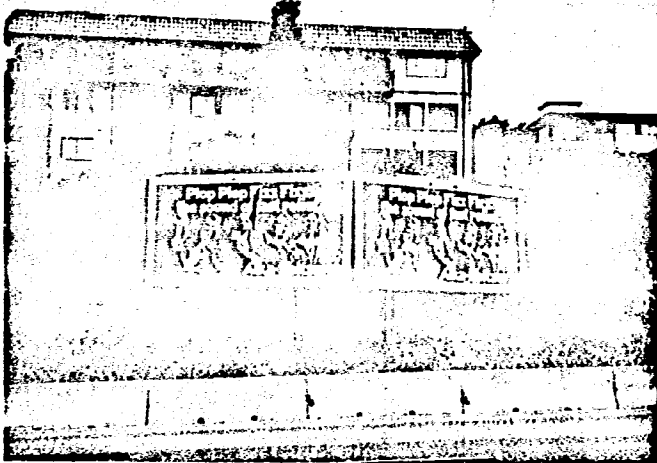
- There is no formal report showing which tenants have paid their rent, and in one case, the leasing agent thought a tenant had paid the 1978 rent when the tenant actually had not paid. After reviewing the payment records for mutual and offsetting benefit leases, we found that several tenants were not billed during 1978 and two tenants, who were billed, did not pay their 1978 rent. The manager and the leasing agent in the Real Estate and Property Management Section explained why certain billings were not made, but they did not know that one of the tenants did not pay the 1978 rent of \$1,075. They thought the rent had been paid. After confirming the problem, the manager directed the Accounting Section to bill the tenant once again for the 1978 rent. The original bill was sent in February 1978.
- The leasing agent believed that the Accounting Section could not tell what the City's expenses and revenues were for each leased property. However, when we asked the Accounting Section if such an analysis was done, they provided us with the information. A report was done for 1978 and apparently the leasing agent did not receive a copy.

If the City leases property, the leasing agent should know who has or has not paid the rent. In addition, maintenance costs are important to establish rent levels and determine the City's rate of return.

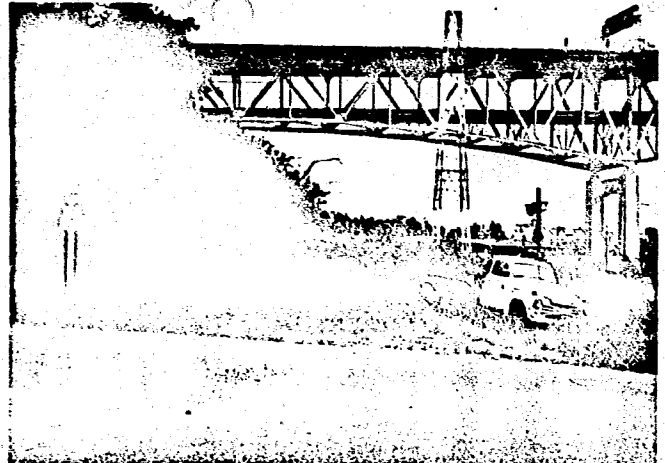
Properties Should Be Inspected

One of the reasons why the City leases property when the projects have not been implemented or have been abandoned is to prevent vandalism, unauthorized use and entry, and the dumping of trash on the site. Despite the fact the City has tenants on the property, several City properties are not adequately maintained by the tenants, and the lack of periodic inspections or visits to the properties may allow tenants to neglect property maintenance. In addition, inspections can be used to update the property inventory kept by the department. During the audit survey, we went with the leasing agent to visit and observe 22 leased City properties. Some of the properties we saw can be seen in the photos on the next page. We visited many commercial properties and they appeared to be in good shape. Many of them were well maintained. However, we also observed some poorly maintained properties, and found property being used that was not on the leasing inventory list. The following are some examples of what we found.

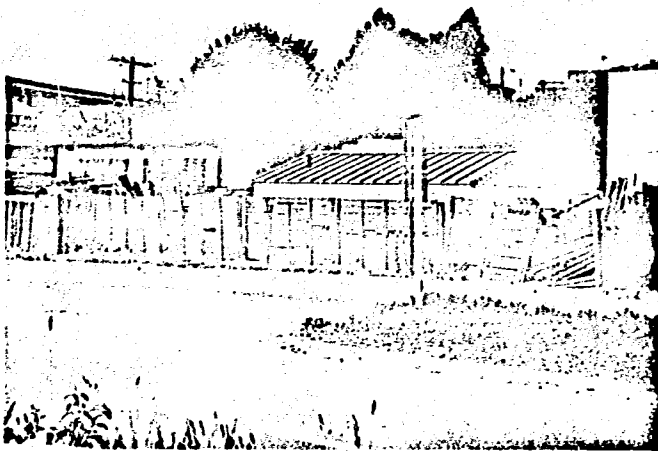
- As we drove by one City lot, we noticed two billboards on the property. The leasing agent could not recall ever seeing them before. We found that these billboards are not listed on the inventory, even though rent is being paid.
- A house on 18th Avenue East was poorly maintained and its appearance was not consistent with the maintained properties surrounding it. The grass was at least three feet tall and it appeared that nobody was occupying the house. The leasing agent called the tenant, and the tenant subsequently cut the grass. Also, the tenant told us that nobody had lived in the house for four to five weeks.



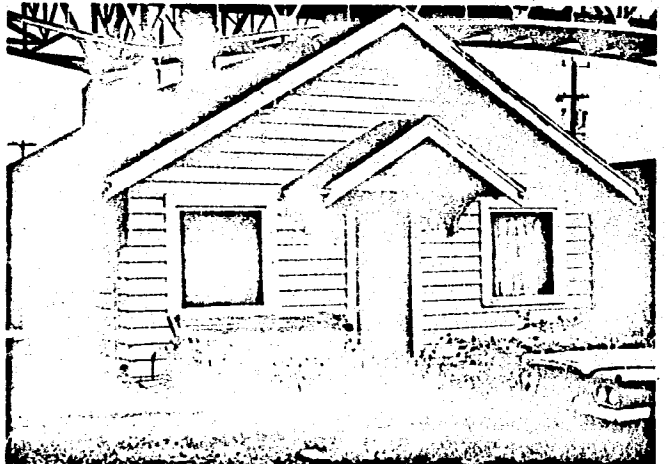
1. These billboards are on city property, but were not on the list of leased properties. The City receives rent for these billboards.



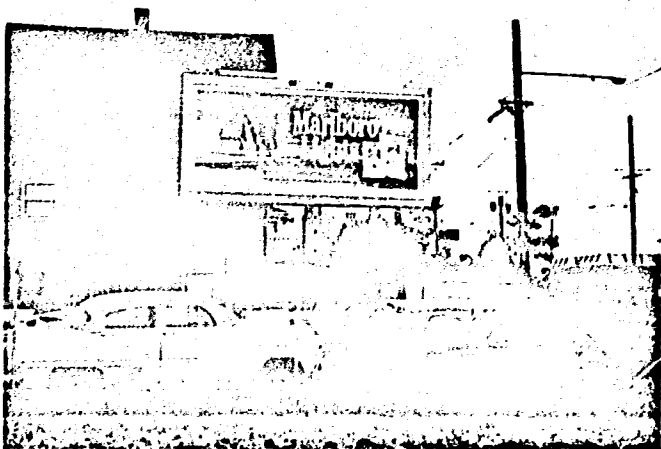
4. An abandoned truck is on city property adjacent to the start of the Burke Gilman Trail.



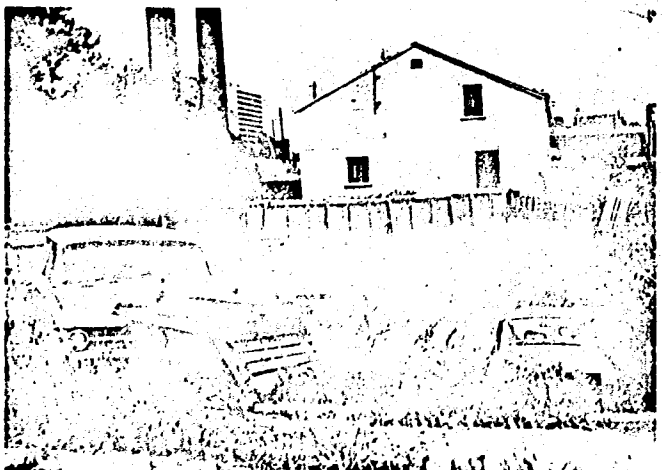
2. City lessees are required to maintain the property, but this fence has been poorly maintained.



5. This is a house rented for \$75 per month, but it is poorly maintained.



3. City property is used as storage by a towing company. The billboard was not listed on the inventory, but the City is collecting rent.



6. Two abandoned cars are on the lot next to the house shown above.

- North of Lake Union, the City leases a house. The house is very old and run down, and a neighboring unleased lot had very tall grass and many blackberry vines on it. A fence had been torn down and two abandoned cars were on the lot. The leasing agent was unaware of these cars until the visit. The lot had been cleared and the grass and bushes were cut a year ago by the City.

The leasing agent told us that he did not have the time to inspect most of the properties the City owns and leases. He said he spends most of his inspection time with the properties in the Mercer Street corridor.

Untimely Administration of Mutual and Offsetting Benefit Leases

The City has several leases with various community and social service agencies and other non-profit organizations, such as Active Mexicanos, C.A.M.P., Central Area Group Homes, and Senior Services Centers. These tenants are called mutual and offsetting benefit tenants because they provide community services in lieu of part of their rent. Every year the leasing agent attempts to renew the leases and negotiate the terms, but these leases are not being administered in a timely manner and have not been sanctioned by ordinance as required by Ordinance 107634. In some cases, the tenants have not paid their 1978 rent or were not even billed for their rent.

The Council has expressed its intent and established general policies concerning these mutual and offsetting benefit (MOB) leases. In the 1977 Statements of Legislative Intent, Resolution 25410, the Council stated that each non-profit tenant should sign a lease with the Building Department in order to continue using the property. In the 1978 Statements of Legislative Intent, Resolution 25723, the Council again stated its position and said the following:

The City Council intends that all non-profit tenants in municipal buildings sign leases in accordance with the Council Intent Statement in the 1977 Budget. Tenants that do not promptly sign such leases, or are unwilling to pay rent, should no longer remain in City buildings. The Building Department is requested to examine non-profit renters and buildings on a case-by-case basis during 1978, and recommend which structures, if any, should be sold because they have no foreseeable municipal use. The City Council further intends that the City will proceed toward a policy of charging non-profit tenants of City-owned properties a fair market rent. (Emphasis added)

In addition to the resolutions, Ordinance 107634, passed in August 1978, states that MOB leases shall be authorized by individual ordinances.

The leasing agent told us that in 1978 approximately 50 percent of the MOB tenants had leases with the City, and none of the eleven MOB tenants were authorized by ordinance to use City property in 1978. As of June 13, 1979, the leasing agent was still negotiating the leases for 1979. According to the leasing agent, the MOB leases are not followed up on or authorized by ordinance because the process takes too long. By the time the lease terms are agreed upon, most of the year has already passed. The major time-consuming aspect of these types of leases are the negotiations over the value and nature of in-kind services which are substituted for actual rent. He cited the tenants' approval cycle and Law Department changes as other contributing factors to the delays.

As mentioned previously, two MOB tenants who were billed did not pay their 1978 rent, and their uncollected rent represented \$3,715 or 24 percent of the total rent collected. The manager of the Real Estate and Property Management Section has recently made efforts to try and collect the rent. In addition, four tenants were not billed. Two tenants were not billed because the property was going to be sold to them or because property ownership within the City had to be clarified. In another case the building was demolished, and no rent was charged. The fourth tenant was not billed because the rent is only \$1 and the City acts only as a middleman to lease the property. The City then subleases the property to the organization.

Although the Council has established a policy that MOB tenants pay rent and if no rent is paid, they cannot use the property, the Building Department appears reluctant to enforce the policy by evicting the tenants because of the community services provided by the organizations. A major issue related to the use of these properties is whether the City should continue to lease these sites or sell them. This issue is discussed in the next section.

Delayed Efforts to Reduce the Number of Leased Properties

The practice of leasing City property to persons, organizations, and businesses is essentially a method of holding property until the City departments decide what to do with it. For a substantial number of leases, the Council has intended that properties not needed by the City be surplus and sold. Such actions could significantly reduce the number of leases and the lease workload, but they have been delayed.

The June 1979 leased property inventory shows approximately 82 leases. According to the leasing agent, 32 leases or 35 percent involve Mercer Corridor properties. In Resolution 25731 concerning the Mercer Corridor, the Council stated these properties should be sold upon completion of development policies for these properties by the Department of Community Development. The resolution was passed in January 1978 and as of July 1979, the Department of Community Development has still not completed their work. The Director of Downtown Projects told us that the delay has been caused by three staff changes during which there was an eight-month period where nobody was working on the project. He said the study should be completed by the end of the year.

In addition to these properties, the Council in January 1978 asked the Building Department in Resolution 25723 to review properties leased to MOB tenants and recommend which structures should be sold because they have no foreseeable municipal use. About 12 leases could be eliminated if the properties were sold. The Building Department has sold one property to its MOB tenant and has cancelled two leases. According to the Real Estate and Property Management Section's manager, these two properties have not been sold because one property is a street end and the other is in the Mercer Corridor. The Building Department has not determined whether the remaining properties leased to MOB tenants are necessary for future operating purposes.

MAJOR CAPITAL IMPROVEMENTS ARE NEEDED

Although the City expects the tenants to maintain the grounds, the major responsibility for maintaining the structure (e.g., buildings and walls) belongs to the City. The manager of the Real Estate and Property Management Section said that the section does not have enough money to maintain the buildings. Property leased by the City should be maintained to prevent dangerous or unsafe conditions and decreasing property values. The cost of repair could be expensive. During our survey, we found two properties which needed major repairs.

- According to the manager of the Real Estate and Property Management Section, a house used as a group home for an MOB tenant needs at least \$11,000 worth of work to make it meet City electrical and plumbing codes, but he said the cost of repairs could easily be two or three times the estimated \$11,000. Because the electrical deficiencies pose a life safety threat, the manager informed the tenant that the house can no longer be used and must be vacated until the repairs are made. The Building Department stated that it cannot afford to make the repairs.
- At the Odessa Brown Center, the lack of building maintenance has created a potentially dangerous situation for which the City might be liable. The edge around the roof of the building is cracking and large chunks are falling three stories onto the ground. The City has blocked off several entrances to the

building because of the hazard, but one entrance remains exposed because it is the only route to certain offices. According to the leasing agent, the City is responsible for maintaining the building's structure, and the manager of the Section said the Building Department was requesting \$200,000 in Block Grant funds to repair the building.

INAPPROPRIATE USE OF CITY PROPERTY

The tenants of leased City property use the property for a variety of activities, including billboard advertising. The use of City property for billboard advertising seems inappropriate given the Council's past actions concerning billboards and the tenant's actions on City property, including unlawful pruning of City street trees. Our audit survey revealed that the Building Department has inadequate lease agreements with the tenant and has a billboard on City property, which does not meet the City Building Code.

The City Council recently passed Ordinance 108051 which prohibits erection, construction, alteration, or structural revision of any billboard or off-premise sign other than an off-premise directional sign. The Council cited aesthetic, safety, and economic reasons for its action, and some of the reasons were the following:

- The maintenance of a visually attractive environment is essential to the City, especially in light of its natural scenic beauty and the fact that tourism is its second major industry.
- Curbing the proliferation of billboards adjacent to public streets and thoroughfares is necessary to promote public safety, welfare, convenience and enjoyment in public travel within the City of Seattle.

The Building Department has, in the past, implemented Council policy concerning billboards on City property used as greenbelts. In Resolution 25670, the Council stated that it was City policy to prohibit renewal of leases allowing billboard uses on City property located in greenbelt areas. As a result, the Building Department did not renew one lease, which has resulted in legal action by the tenant; the Law Department is handling the case.

Based upon Building Department records and research, nine City properties have been used for billboard advertising. Since 1976, the rents have varied from \$20 to \$100 per month depending upon the property, and according to the Building Department, the rent received in 1978 was \$3,690. As of June 1979, the City was only receiving rent for eight properties because the City cancelled one lease. In addition, another property is in the process of being sold.

Inadequate Lease Agreements

The agreements with the tenant to use City property for billboards are not clear or well documented. We reviewed the Real Estate and Property Management Section's files for eight properties excluding the one being sold and found only three leases where there were signed commitments with the tenant's predecessors and the City. We could not find any lease agreements with the tenant. Thus, there appears to be no formal authorization by the City for the tenant to use the property.

The only discussion between the City and the tenant appears to be found in letters dated in 1976, but it is still not clear, other than rent, what terms were agreed to. In June 1976, the Building Department apparently sent a letter to the tenant concerning rent increases and rent terms. The only term specified in the letter was that the signs must be on a month-to-month basis. However, after negotiations took place between the City and the

tenant, a letter was sent in December 1976 to the tenant by the Building Department. The letter only stated the rents and made no reference to the terms. According to the leasing agent, the rents stated in the letter were wrong and were subsequently changed, but no lease was ever signed.

Non-Conforming Billboards on City Property

On January 8, 1979, a Building Department inspector cited the Real Estate and Property Management Section for a violation of the Seattle Building Code #106350, Section 4924-4. The section prohibits billboards from being erected or maintained within 100 feet of each other, and the citation refers to two signs located at 900 Broad Street, which the City leases to a tenant. After receiving the citation, the Real Estate and Property Management Section requested that all billboards on City property be inspected.

Because of the citation, the Building Department requested in February 1979 that the tenant remove one sign to comply with the Code. If the tenant did not comply, the Building Department said the tenant's occupancy would be terminated and both signs would be removed at the tenant's expense. As of July 1979, five months later, both signs still remain on City property, and no additional action has been taken by the Building Department.

In contrast to the Building Department, City Light took steps to establish a policy on billboards and to remove them from City property. City Light reviewed its policies concerning its temporary permits and determined that no new permits for off-premise signs would be issued and all existing permits for them would be cancelled. This action resulted when the Board of Public Works failed to approve a permit for an off-premise sign on City Light property. Because the permits were cancelled, the tenant was required to remove its signs. It took almost six months before they were removed, and City Light also had to threaten to remove the signs and bill the tenant for their removal.