



Request for City Council Committee Action from the Department of Finance

Date: October 20, 2008
To: Ways & Means/Budget Committee
Referral to: None

Subject: Centralized Leases

Recommendation: Review and forward to the Facilities, Space and Asset Management Committee (FSAM) for discussion and final decision of the technical change of collection and disbursement of rent charges for City Hall space for implementation in the 2009 Adopted Budget

Previous Directives: The Mayor's 2009 budget recommendations included the following Direction to the departments of Finance and Public Works:

The Mayor recommends that the Finance and Public Works Departments propose and implement a City-wide rate for rent that will encompass all funding sources and would include all City Hall tenants.

The proposal will include various options as compared to the current system of rent charges:

- 1. Average cost per square foot*
- 2. Average cost per square foot with additional space charges*
- 3. Fully-burdened costs*

The proposal will also include various methods of billing including:

- 1. Increasing Property Services budget accordingly, as well as increasing budgets of tenant departments*
- 2. Having Property Services bill monthly/quarterly/annually for rent charges*

The Finance and Public Works Departments will report back to Ways & Means/Budget Committee by October 6, 2008.

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Approved by: Patrick Born, CFO and Steven Bosacker, City Coordinator
Presenters in Committee: Michelle Harder, Finance Department

Reviews

- Permanent Review Committee (PRC): Approval Date _____
- Civil Rights Approval Approval Date _____
- Policy Review Group (PRG): Approval Date _____

Financial Impact

- No financial impact
- Action requires an appropriation increase to the ____ Capital Budget or ____ Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Action is within the Business Plan
- Action requires a change to the Business Plan
- Other financial impact
- Request provided to the Finance Department when provided to the Committee Coordinator

Community Impact

- Neighborhood Notification
- City Goals
- Comprehensive Plan
- Zoning Code
- Other

Supporting Information

Background

The City-wide rate for rent (which reflects expenses incurred for City Hall space) would be a technical change aimed at guiding the strategic planning for space needs as well as more accurately reflecting costs of space to departments.

Proposed change

Currently, the City provides the Municipal Building Commission its share (0.3010%) of property taxes when collected twice per year. The direct property tax covers the cost of rent of office space in City Hall used by General Fund and Internal Service Fund departments. The MBC bills non-General Fund and non-Internal Service Fund departments directly for rented space.

Finance and Public Works are proposing a technical change in which rent collection for all departments residing in City Hall would pass through Public Works Property Services Fund. Property Services would collect rent charges from these departments and transfer the amount of rent collected to MBC on a monthly basis.

This change will not affect the revenue provided to the MBC. The change will also not affect any City Hall department's budget since the property tax levy that currently goes directly to MBC will appear as a rent line item in the budget of each General Fund and Internal Service Fund department currently residing in City Hall. The line item will have the dedicated use of paying costs associated with renting office space in City Hall.

This change is causing rent charges to be more visible in departments' budgets thereby eliminating the "sticker shock" when a department moves from the seemingly free City Hall space to another location. It allows departments to more effectively manage resources and strategically assess space needs.

There are two options to consider with corresponding policy considerations:

1. Actual cost
2. Average cost per square foot

With actual cost, the true cost of the space will be reflected in each departmental budget. There will be clear winners and losers when a department either wants or needs to move to a new location. There may be a push from all departments to move to the least expensive space.

With an average cost per square foot, all office space rented by the City would cost the same per square foot, meaning there would be no winners or losers. However, with older buildings, there are increasing maintenance costs thereby suggesting that an average cost will not be reflective of the true costs of the space.

The estimated charges for the 2009 budget can be seen on Schedule 13 in the Mayor's Recommended budget book. Schedule 13 is for informational purposes only. Please note that MBC, although appearing in the schedule, would not be charged rent in City Hall under this proposal. A revised Schedule 13 is attached to this action for clarification.