

OFFICE OF INSPECTOR GENERAL
City of Chicago



***OFFICE OF INSPECTOR GENERAL ADVISORY CONCERNING
THE CITY'S REAL PROPERTY MANAGEMENT***

MARCH 2014

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VIA ELECTRONIC MAIL

March 12, 2014

Rahm Emanuel
Mayor
City of Chicago
121 N LaSalle St. Room 500
Chicago, IL 60602

Dear Mayor Emanuel:

The City of Chicago Office of Inspector General (OIG) has completed a review of the City's current practices regarding the periodic evaluation of real property.¹ The review established that the City has no process for periodically evaluating its real property to determine if it is being utilized for the most effective and economical purposes. We found that while the City maintains a list of unused, or surplus, properties and works to sell those, it does not periodically evaluate its utilized real property assets to determine if they are being used for the best possible purpose or should be sold.

The City faced a projected deficit of \$338.7 million at the beginning of the 2014 budget process and continues to face a \$600 million pension cliff in 2015. In such a financial environment, ensuring that the City gets the most effective use out of all of its real property is imperative.² In some instances, generating revenue through the sale of currently utilized assets may be the most effective use of City-owned property.

I. INDOOR PARKING IN RIVER NORTH

The impetus for this review was an anonymous complaint OIG received about a City-owned warehouse located at 366 West Superior in the city's River North neighborhood. The City currently uses this warehouse to park two City-owned vehicles and provide free parking for City staff who work in the City's administrative hearing facility and the adjoining City office space,

¹ Real property is defined as, "The land itself, with all things contained therein, and also all buildings, structures and improvements, and other permanent fixtures thereon, including all oil, gas, coal, and other minerals in the land and the right to remove oil, gas and other minerals, excluding coal, from the land, and all rights and privileges belonging or pertaining thereto, except where otherwise specified by this Code." 35 ILCS 200/1-130.

² City of Chicago Office of the Mayor Press Release, "Mayor Emanuel Presents Balanced 2014 Budget Proposal to City Council," October 23, 2013, accessed on February 19, 2014, http://www.cityofchicago.org/city/en/depts/mayor/press_room/press_releases/2013/october_2013/mayor_emanuel_presentsbalanced2014budgetproposaltocitycouncil.html.

located at 400 W. Superior and 740 North Sedgwick, respectively.³ The City estimated, at OIG's request, its out-of-pocket maintenance costs for the property to be as low as \$3,000 annually. OIG estimates the value of the free indoor parking provided to 19 City staff assigned warehouse parking spaces to be at least \$45,600 annually assuming a market value of \$200 monthly per space. However, the real estate value of this property may exceed \$1 million, based on a similar recently sold property, 351 West Huron, one block away.

Currently the Department of Planning and Development evaluates and markets the City's surplus, (i.e., unused) properties, such as vacant land, for economic development purposes.⁴ However, the City does not evaluate its entire real property portfolio in order to determine if its use is optimally effective and economical. A complete real property management program would allow the City to make strategic decisions about its real property assets, such as a determination of the benefits and costs of providing free indoor parking, in a small limited use facility, located in a high property value area such as River North.

II. FRAMEWORKS FOR REAL PROPERTY ASSET MANAGEMENT

The Urban Institute Center on International Development and Governance published guidance for local government real property asset management in its *Guidebook on Real Property Asset Management for Local Governments* (detailed in an appendix to this letter).⁵

First, it suggests that local governments sort their properties into three categories:

1. **"Mandatory** - properties needed for performing the functions that are the responsibility of local government, as stipulated by law,
2. **Discretionary** - properties needed for performing the functions that are voluntarily supported and performed for social, political or other reasons, and
3. **Surplus or income generating** - properties not needed for any of the first two groups."⁶

³ The 366 West Superior warehouse is one of a number of parcels in the immediate area that the City allocates for free parking to City personnel working in departments operating at 740 N. Sedgwick and 400 W. Superior. The City generally allocates those parking spaces *pro rata* based on the comparative size of department staff housed at those two City facility addresses. As one of the departments housed in one of those two locations, OIG itself shares in that *pro rata* allocation of free parking spaces in the immediate area.

⁴Property is operationally managed by different departments across the City and each of those departments may maintain a list of property under their own control. However, there is no single comprehensive list of all City properties.

⁵ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute Center on International Development and Governance, 2012), accessed February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

⁶ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute Center on International Development and Governance, 2012), 17, accessed February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

Once the groupings have been established, the City should consider creating goals and financial principles for each category of property. The Guidebook suggests optimizing properties used for mandatory functions by,

1. “Increasing the efficient use of facilities, by requiring governmental departments to justify demand for their space
2. Minimizing operating costs
3. Locating government offices and services in functional, not prime areas, and in modest buildings and facilities
4. Understanding the best use of an asset and making cost-benefit analyses to justify the governmental use of particular properties.”⁷

To optimize discretionary function assets, the Guidebook suggests “analyzing actual costs in order to facilitate the best decisions” and “generating program alternatives to reduce direct and indirect property-related subsidies as much as possible.” For example, the Guidebook suggests that cities “monitor usage and occupancy to assure that unused space is reassigned.”⁸

The State of New York has published guidance for maximizing the value of local government capital assets similar to that described in the Guidebook. The New York State Comptroller’s *Local Government Management Guide for Capital Assets* (2008) notes that,

Over time, purchases of buildings, equipment, machinery and other long-term assets can result in the accumulation of (tens of) millions of dollars in municipal property. Like any portfolio, these assets need to be actively managed to ensure that the most value is received from this considerable investment.⁹

The New York State Comptroller’s Office recommends that local governments adopt performance measures to evaluate whether capital asset usage is maximally cost-effective, and refers to the Government Finance Officers Association’s (GFOA) guidance on developing meaningful performance measures for use in decision-making.¹⁰

⁷ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute Center on International Development and Governance, 2012), 17, accessed February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

⁸ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute Center on International Development and Governance, 2012), 18, accessed on February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

⁹ *Local Government Management Guide-Capital Assets*, (Office of the New York State Comptroller, October 2008), 1, accessed on February 19, 2014, http://www.osc.state.ny.us/localgov/pubs/lgmg/capital_assets.pdf.

¹⁰ See the appendix to this letter for more detail. Salomon A. Guajardo and Rosemary McDonnell, *An Elected Official’s Guide to Performance Measurement* (Chicago: Government Finance Officers Association, 2000), 2-3, quoted in *Local Government Management Guide-Capital Assets*, (Office of the New York State Comptroller, October 2008), 12, accessed on February 19, 2014, http://www.osc.state.ny.us/localgov/pubs/lgmg/capital_assets.pdf.

III. REAL ASSET MAXIMIZATION PROGRAM INITIATIVE OF THE CHICAGO INFRASTRUCTURE TRUST

During the course of our review, the Chicago Infrastructure Trust (CIT) announced the Real Asset Maximization Program (RAMP) initiative through which it intends to repurpose underutilized City assets.¹¹ Although the RAMP initiative is still in the planning stage, its stated objective is to “promote the efficient and economic use of City real assets and maximize their value as public assets.”¹² Moreover, as conceptually framed, RAMP includes two critical elements OIG has identified as being core to a robust real property asset management program, namely:

1. “Repurpose Underutilized City Assets; and
2. [Create a] Citywide Property Information Platform.”

In introducing the RAMP initiative, CIT noted that “property repositioning is not a core competency of City departments or agencies.”¹² It likewise noted the lack of a City-wide data set for real estate. CIT characterized this absence as limiting management’s ability to make decisions about the property in its portfolio and hindering the ability of stakeholder groups—including those in the real estate industry—to make informed decisions about real estate transactions.¹³

IV. CONCLUSION

In the absence of a complete real property inventory subject to periodic evaluation for best use or re-purposing, OIG believes that mismatches such as the one described above, between actual and optimal use of a City-owned warehouse in River North, are inevitable. Accordingly, OIG urges the City to consider investing in a comprehensive real asset management program. In light of the City’s present fiscal condition, this work should not wait for the Chicago Infrastructure Trust RAMP initiative to come to fruition, and we certainly encourage collaboration and coordination of such efforts. However, regardless of market or fiscal circumstances, the City should always act to optimally utilize its assets effectively and economically, and should do so in a comprehensive and transparent manner in order to foster full stakeholder knowledge and participation.

OIG invites the City to respond in writing before April 11, 2014. Any such response will be made public together with this OIG advisory.

Respectfully,



Joseph M. Ferguson
Inspector General
City of Chicago

¹¹ CIT first referred to this initiative as “RAMP” but now refers to it as “Reinvent Chicago.”

¹² Chicago Infrastructure Trust, “Programs and Initiatives Update,” 4, October 31, 2013, accessed on February 19, 2014, <http://shapechicago.org/wp-content/uploads/2013/04/Programs-and-Initiatives-Updates.pdf>.

CC: David Reynolds, Commissioner, Department of Fleet and Facility Management
Daniel Widawsky, Comptroller, Department of Finance
Erin Keane, First Deputy Comptroller, Department of Finance

¹² Chicago Infrastructure Trust, "Programs and Initiatives Update," 6, October 31, 2013, accessed on February 19, 2014, <http://shapechicago.org/wp-content/uploads/2013/04/Programs-and-Initiatives-Updates.pdf>.

¹³ Chicago Infrastructure Trust, "Programs and Initiatives Update," 6-7, October 31, 2013, accessed on February 19, 2014, <http://shapechicago.org/wp-content/uploads/2013/04/Programs-and-Initiatives-Updates.pdf>.

APPENDIX A: GUIDEBOOK ON REAL PROPERTY ASSET MANAGEMENT FOR LOCAL GOVERNMENTS

The following framework is taken from the *Guidebook on Real Property Asset Management for Local Governments* published by the Urban Institute Center on International Development and Governance.¹³

“Properties controlled by local governments should be sorted in three groups:

1. **Mandatory** - properties needed for performing the functions that are the responsibility of local government, as stipulated by law,
2. **Discretionary** - properties needed for performing the functions that are voluntarily supported and performed for social, political or other reasons, and
3. **Surplus or income generating** - properties not needed for any of the first two groups.”¹⁴

The Guidebook explains how local governments could develop financial principles and goals for each category of property.

“Use of properties for mandatory functions should be optimized by:

1. Increasing the efficient use of facilities, by requiring governmental departments to justify demand for their space
2. Minimizing operating costs
3. Locating government offices and services in functional, not prime areas, and in modest buildings and facilities
4. Understanding the best use of an asset and making cost-benefit analyses to justify the governmental use of particular properties.”¹⁵

“Assets for discretionary functions should be optimized by:

1. Analyzing actual costs in order to facilitate the best decisions.
2. Generating program alternatives to reduce direct and indirect property-related subsidies as much as possible (also see Activity 12); particular suggestions include:

¹³ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute Center on International Development and Governance, 2012), 17, accessed on February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

¹⁴ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute Center on International Development and Governance, 2012), 17, accessed on February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

¹⁵ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute Center on International Development and Governance, 2012), 17, accessed on February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

- Have users or their sponsors maintain the property themselves,
- Encourage users or sponsors to lease unused portions of premises or territory to other commercial or non-profit entities, accurately account to owner for resulting net revenues, and adjust subsidies appropriately,
- Establish clear contractual relations with the users, which stipulate mutual responsibilities for property maintenance and allocation of the costs and revenues,
- Monitor usage and occupancy to assure that unused space is reassigned to more serious users,
- Arrange sharing of facilities by multiple groups.”¹⁶

V. **APPENDIX B: GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) PRINCIPLES FOR PERFORMANCE MEASUREMENT**

“GFOA recommends that performance measures:

- Be based on program goals and objectives;
- Be monitored and used in decision-making processes;
- Be reliable, valid, verifiable and understandable;
- Be reported internally and externally;
- Measure effectiveness, efficiency and service delivery;
- Measure program results;
- Provide an efficient and meaningful way to assess the effectiveness, efficiency and service delivery of key programs; and,
- Provide a basis for comparison over time.”¹⁷

¹⁶ Olga Kaganova, *Guidebook on Real Property Asset Management for Local Governments*, (Urban Institute on International Development and Governance, 2012), 18, accessed on February 19, 2014, <http://www.urban.org/UploadedPDF/412531-Guidebook-on-Real-Property-Asset-Management-for-Local-Governments.pdf>.

¹⁷ Salomon A. Guajardo and Rosemary McDonnell, *An Elected Official's Guide to Performance Measurement* (Chicago: Government Finance Officers Association, 2000), 2-3, quoted in *Local Government Management Guide-Capital Assets*, (Office of the New York State Comptroller, October 2008), 12, accessed on February 19, 2014, http://www.osc.state.ny.us/localgov/pubs/lmgm/capital_assets.pdf.

CITY OF CHICAGO OFFICE OF INSPECTOR GENERAL

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To Suggest Ways to Improve City Government	Visit our website: https://chicagoinspectorgeneral.org/get-involved/help-improve-city-government/
To Report Fraud, Waste, and Abuse in City Programs	Call OIG's toll-free hotline 866-IG-TIPLINE (866-448-4754). Talk to an investigator from 8:30 a.m. to 5:00 p.m. Monday-Friday. Or visit our website: http://chicagoinspectorgeneral.org/get-involved/fight-waste-fraud-and-abuse/

MISSION

The City of Chicago Office of Inspector General (OIG) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, effectiveness, and integrity in the administration of programs and operations of City government. OIG achieves this mission through:

- Administrative and criminal investigations
- Audits of City programs and operations
- Reviews of City programs, operations, and policies

From these activities, OIG issues reports of findings, disciplinary, and other recommendations to assure that City officials, employees, and vendors are held accountable for the provision of efficient, cost-effective government operations and further to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

AUTHORITY

The authority to produce reports and recommendations on ways to improve City operations is established in the City of Chicago Municipal Code § 2-56-030(c), which confers upon the Inspector General the following power and duty:

To promote economy, efficiency, effectiveness and integrity in the administration of the programs and operations of the city government by reviewing programs, identifying any inefficiencies, waste and potential for misconduct therein, and recommending to the mayor and the city council policies and methods for the elimination of inefficiencies and waste, and the prevention of misconduct.