



of property management practices found a lack of active management of leases, with more than half a million dollars owed the city in either missed rent payments or underpayments.

In fact, before the audit, the city didn't have a staffer whose job carried specific lease management responsibilities. Now it does, with the audit providing a kind of game plan for the individual who is now responsible for generating a passel of better lease management practices. "This audit was a really good tool for me to start a program from scratch," Ashley Wise, real estate manager for the City of Kansas City, Missouri, said.

Problems with management shortcomings—cited in Kansas City and elsewhere—are not new. For example, over the past eight years, several audits for the City of San Diego, California, as well as a San Diego Civil Grand Jury report, have cited the problem of leases that have expired while leaving a tenant in place. This creates a missed opportunity for rent increases. "Even a small percentage of undercharging due to holdover could result in potentially millions of dollars in foregone revenue for the city each year," according to a 2022 San Diego audit.

In the most recent San Diego audit, 101 out of 421 leases, or 24 percent, had passed their renewal dates, with 26 of those having held that status for a decade or more, with ten awaiting action since 2001.

In addition to the fiscal issues, expired leases that are ignored also lead to budget uncertainty and the potential neglect of maintenance issues, needed property enhancements, or re-sale opportunities. They can also deprive the city of its ability to ensure adherence to original lease terms.

Handling no-cost or low-cost leases

Leases that are provided at no- or low-cost rent to nonprofits or other organizations that promise services to the community can be a benefit to all concerned. But when monitoring is shortchanged and years go by without lease renewal, there are no guarantees that service promises are kept.

PERSPECTIVE

The Drive to Improve Public Sector Lease Management

BY KATHERINE BARRETT AND RICHARD GREENE

When most people think about landlords, their minds tend to go to large real estate companies or individuals who own a building. But with a vast number of properties acquired over many years,

cities, counties, and states have become significant landlords themselves, renting out space to businesses and nonprofits.

But any good landlord knows the job is largely managerial and goes far beyond just collecting the rent every month. The

same should be true of public sector property owners, but a number of recent performance audits have cited problems with lax management practices, including insufficient documentation, a lack of planning, minimal transparency, and inconsistent processes.

"I think some of it is coming out of the pandemic, with cities as well as private entities looking at their space and their assets," Doug Jones, auditor for the City of Kansas City, Missouri, said of the recent local audits focused on this topic. His own 2021 performance audit

In a June 13, 2024, letter to the mayor and council of the City of Vancouver, Canada, the auditor general explained that inattention to no- or low-cost leases provided to childcare providers and nonprofit agencies had the potential for compromising fairness, transparency, and city accountability. “The decision to renew leases requires systematic evaluation and documentation of the public benefits delivered by lessees. We found that had not been done,” he wrote.

This was also a major theme of a December 2023 City of Long Beach, California, audit, updated in March 2024, which raised numerous questions about the no-cost ten-year lease the city had provided to Mental Health America (MHA). The deal was based on services the organization had promised to provide to the community, including health services for individuals experiencing homelessness, community meeting room space, and a sit-down cafe. While some of these services are in the works, according to the audit:

- Health services provided by The Children’s Clinic (TCC) were only provided one or two days a week.
- The offer of community space for public use was not historically advertised, though it was recently added to the MHA website. According to the audit, “MHA stated the volume and frequency of use was very low, but it declined to provide data, citing confidentiality.”
- The sit-down cafe had not yet been opened.
- Although MHA paid nothing for the space, it was charging a health services provider \$100,000 annually, a sublease agreement that was not filled in or executed by any city employee.

Improving asset documentation and data

With properties that are acquired over long stretches of time, and often via decentralized processes, inventories are sometimes incomplete or marred by faulty data. For example, auditors in Long Beach noted that the city lacked an inventory that covered all city-owned property—an important tool for various reasons, including identifying unused

property that could generate revenue.

In the State of Tennessee, which began moving more employees to a hybrid, semi-remote work environment long before the pandemic, the drive to maximize the use of building space and generate income from property that was no longer needed has put a major focus on asset management through the Department of General Services.

When Governor Bill Lee first took office in 2019, he asked his newly appointed commissioner of general services whether the state had an inventory of the property that it owned. Commissioner Christi Branscom had already asked her staff that question and received a negative reply. “And so, I told the governor, ‘No, sir. We do not.’” She quickly added that she was committed to working on that issue to make sure that complete records for all state-owned properties were accurate and in one place.

A publicly-facing dashboard with the state’s full land and property information went live on the TN State-Owned Land Dashboard, part of the Tennessee State website (tn.gov/generalservices) June 30, 2023, providing a transparent look at what the state owns. That complete list not only provides better information to General Services and the rest of the executive branch, but it helps local governments see what the state owns in their counties or by legislative district. It also helps inform private citizens who might want to express interest in a surplus property.

With solid management practices in place, the state now projects that it will be able to save \$156 million over the next ten years through real estate transactions.

Fixing the problems

Some city leaders may be frustrated when audits that point to problems receive public attention, but when those audits are taken seriously, the recommendations can lead to productive conversations and efforts to fix the outstanding issues, with auditors following up subsequently to see what progress has been made.

In Kansas City, for example, the audit launched the Department of General Services on an examination of the city’s nonprofit leases. Wise found that some were very old and that there was “really no rhyme or reason” as to why nonprofits’ rents varied from one place to the other. “There was really nothing standard across the board,” she said.

Creating a standard process then became a major project, with new requirements for nonprofits to produce articles of incorporation and tax forms to help gauge their financial situation. This has helped the city create a tiered system that puts everyone on the same page. Like many other cities, Kansas City had provided property at little or no rent for organizations that provided services to the city. It has now stopped providing property in exchange for services delivered with little or no rent, though it will consider a reduced rate for a new program in its first few years.

In reaction to the audit, Kansas City’s General Services department is also updating its administrative regulations so that its general policies on leases are clear and consistent. It also has updated its property management system, and Wise and General Services Director Yolanda McKinzy say they are careful to stay on top of expiring leases and will start working on negotiations with tenants three to four months ahead of renewal dates.

“We’ve been consistent with that for several years now, and it’s been very smooth and transparent,” Wise said. “This is a standard operating procedure that we’ve created. It’s simple to follow and it makes sense to our tenants, too. We’re super proud of that.” ■



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