

Managing Lease Rates and Below Market Leases

Scope Statement – March 1, 2021

City Property Leases

The General Services Department manages city property leases except for leases managed by the Aviation, Convention and Entertainment Facilities, and Parks and Recreation departments. General Services leases real estate the city is not using to third-parties. Uses of city properties leased by third-parties include office and retail spaces, restaurants, farmland, performing arts, and warehouses.

In fiscal year 2020 the city received approximately \$1 million in revenues from these leases. The city also leases some properties to non-profit agencies at below market rates.

Why audit the management of lease rates and below market leases?

While conducting work on our recent audit of city buildings and facilities,¹ we noted lease rates may not be increasing according to provisions in the leases. Not increasing rent amounts according to the lease provisions deprives the city of revenue it is entitled to receive.

Our 2015 audit [Leasing City-Owned Property](#), recommended the city develop a policy for leasing city properties at below market rates. In December 2019, the City Council passed [Resolution 190858](#) directing the city manager to develop a policy for evaluating and reporting on below-market rent leases. Without a below market lease policy the city may not be consistently evaluating organizations' qualifications and whether they provide enough social benefit to justify the rent subsidy.

Audit objectives

Our objective is to answer the following questions:

- Is the city receiving all rent payments due for leased property?
- Does the city have a policy for below market rate leases?

Audit methods

This audit will focus on leases managed by the General Services Department. We will interview city staff, review Resolution 190858, examine policies and procedures, review our prior audit work on leases, analyze lease documents and data, and calculate the amount of revenue the city should have received from leases.

Anticipated release date

We plan to issue the audit report in May 2021.

¹ [City Hall Office Space Under Used, Significant Costs to Consolidate Office Space](#), Office of the City Auditor, Kansas City, Missouri, December 2020.