



THE CITY OF LOS ANGELES

2014 Asset Management Services Study

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OFFICE OF THE CITY ADMINISTRATIVE OFFICER (CAO)

2014 Asset Management Integrated Final
Report

PA Consulting



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EXECUTIVE SUMMARY

In 2013, the City of Los Angeles engaged PA Consulting (PA) and Cushman & Wakefield (C&W) to assess various aspects of the City's Asset Management Services and, more importantly, to provide a road map for improving its operational performance. In response, PA and its subcontractor developed a set of observations and recommendations to help the City achieve its Asset Management strategic goals and to refresh the 2009 Strategic Real Estate Plan (2009 Plan).

This study addresses portfolio oversight and optimization, organization of the City's real estate functions, and recommendations for future asset management services and systems via the following individual reports:

- **Report 1: Real Estate Strategic Plan Review** – PA identifies areas of potential enhancement or revision in the 2009 Plan (see Appendix A)
- **Report 2: Asset Management Organizational Design Review** – PA reviews the current organizational design and identifies potential improvements leading to a more desirable state (see Appendix B)
- **Report 3: Selection of the City of LA Asset Management System (AMS)** – PA reviews the City's current real estate systems and details options for acquisition and implementation of a new AMS (see Appendix C)
- **Report 4: 2014 Real Estate Strategic Plan** – PA focuses on the way the City manages its real estate assets, and presents a plan to transition to a more desirable future state (see Appendix D)
- **Report 5: Asset Management Portfolio Optimization** – C&W develops a framework for categorizing the City's real estate portfolio, achieving the highest and best use for City-owned properties, and augmenting City resources with third-party professionals (see Appendix E)

The City of Los Angeles is in need of a new real estate asset management model. The City has functioned largely in a stewardship role, continuing to apply methods and policies to situations as they arose. The City's large portfolio (\$3 billion plus) of real estate has been managed without a formal portfolio plan and without an AMS. Departmental space has been provided as needed, and public service properties were acquired or constructed on an as-requested basis, without fully considering the impact on the property portfolio and without reference to an overall plan. In general, the organization has lacked the authority to manage its portfolio, and instead has made individual transactions to provide services as best it could.

This is not the best way to achieve optimal performance from the City's assets, nor the way to provide optimal customer service to City constituents. The asset management model for this portion of the portfolio should be, for the most part, based more on practices in investment real estate organizations rather than on those found in other municipalities. The recommended processes found herein are drawn from best practices

in the portfolio and asset management strategies of real estate investment management organizations.

A successful asset management model must focus on four areas – 1) asset management technology (systems and data), 2) real estate portfolio performance measures and management, 3) operating portfolio processes, and 4) people (for example, customer service and stakeholder management). Consistent with these four focus areas, the 2014 Asset Management Services Study is distinct from the 2009 Plan in the following four ways:

- **Technology** – The existing electronic database of real estate information in the City is inadequate to support asset and portfolio management processes. It must be replaced with a modern AMS, or set of systems, that supports portfolio monitoring, asset management performance measures, project tracking, and other information necessary for City staff to accomplish their work. The City must also manage real estate data in a more systematic, robust manner. Otherwise, the City will remain challenged to access high-quality information quickly and make informed real estate decisions effectively.
- **Performance Measures and Management** – PA has recommended a Balanced Scorecard (BSc) to monitor, collect, analyze, and report the data necessary for managing real estate strategically. The necessary monitoring of asset management activities breaks down into three components. First is the creation and addition of standard real estate performance measures, including calculation of rates of return, occupancy, net income (cash flow), space quality, and comparison to market. The data to create many of these may not already have been collected (for all properties) or may not be in a format that permits rapid property and portfolio analysis. The implementation of the new AMS technology will create an opportunity to provide these kinds of performance measures. Second is the set of measures relating to execution, including the accuracy and completeness of property records, customer (or stakeholder) satisfaction, response times, unresolved properties or transactions, and histories of negotiation. The third set includes performance measures related to managing the City's transition to a new asset management model. This includes adherence to schedules, implementation planning, and successful transitions.
- **Processes** – In this report, PA recommends a set of asset management processes that focus on the areas of real estate investment portfolio performance, operating portfolio management, and customer service. The most significant of these include the development of processes for asset management processes per ISO (the International Organization for Standardization). ISO is a worldwide federation of national standards bodies (ISO member bodies) that, through international cooperation in the preparation of these standards, has identified common practices that can be applied to the broadest range of assets, in the broadest range of organizations, across the broadest range of cultures. ISO 55000, ("Asset Management", released in Jan. 2014), and ISO 15489 (Information and Records Management, released in 2001) provide a framework for much of the real estate decision-making at the City. These rigorous processes would also include gathering and cleansing information to drive continuous improvement. If they are developed and consistently enforced, performance of the City's real estate portfolio will improve

rapidly. Note that PA strongly recommends developing and honing this process before considering the procurement of services for these key processes.

- **People** – Migrating to a new asset management model will require several changes that impact City staff. The first of these is a renewed commitment to training, including training on new processes, training on new technology, and an expansion of training from professional organizations that offer a broader range of real estate techniques to the group. Such training is crucial to the City, and should be mandatory for real estate personnel. Second is the creation of a component of the team devoted to portfolio management, as opposed to asset management. This small team would be responsible for developing a consolidated portfolio plan, and for monitoring property performance and ongoing real estate activity. PA has included “People” in a BSc which should be developed to track and manage performance related to Asset Management services.

For convenience this report will refer to the following entities:

1. “City Family”: Mayor’s Office, Council Offices, all departments/bureaus/divisions except for the proprietary departments (DWP, LAWA, Port),
2. “City Team” or “City Real Estate Team”: CAO AMSP, GSD, BOE, ITA, EWDD, and MFC

The primary purpose of this document is to provide the City with tools for increasing the value derived from its property holdings. The goal of this document is to suggest a systematic approach that the City can implement on its own, or at least with a reasonable level of outside support.

This document presents an outline of the principal means for improvement of the City’s asset management services. It contains a set of recommendations which we hope the City will adopt. We also hope the City leadership will adapt these recommendations to the City’s portfolios of real estate assets as they think best.

1 SUMMARY OF THE REVIEW OF THE 2009 REAL ESTATE STRATEGIC PLAN

1.1 Overview

PA Consulting (PA) focused its attention on identifying areas for enhancement or revision in the 2009 Real Estate Strategic Plan (2009 Plan), as well as performance improvements for the City's real estate people, processes, assets and systems.

While the people, processes, assets and system aspects are discussed in greater details in separate reports, this review of the 2009 Plan includes:

- An evaluation of the 2009 Plan and confirmation or revision of the Vision, Mission, and Goals identified in the plan, in addition to a review of the progress-to-date in executing the high-level objectives identified in the Plan
- A set of strategic planning recommendations to be considered for the development of the City's next Real Estate Strategic Plan.

PA's full report entitled "Asset Management Services Study: Real Estate Strategic Plan Review" can be found in Appendix A.

1.2 Evaluation of the 2009 Strategic Real Estate Plan

The 2009 Plan consists of an update of the 1996 Office Facilities Master Plan. The execution of the 2009 Plan can be seen as a commendable attempt to improve asset management within the City during extremely difficult times. Although the Plan does not contain all the elements prescribed by best practice, it is a plan with a multi-year horizon that lays out initiatives designed to increase the efficiency of asset utilization and reduce direct lease costs. It forms the base on which a more visionary asset strategy may be built.

The 2009 Plan includes four broad objectives:

- Improve City efficiency by consolidating space and co-locating services related to one another
- Enhance public access by moving key related services to Figueroa Plaza, facilitating one-stop-shopping
- Improve cost-effectiveness by reducing leased space
- Acquire and implement a new Asset Management System (AMS)

Despite the adverse economic environment over the last several years, with the exception of a new AMS, progress has been made against each of these objectives. Specifically, the City's leased expenditures have been reduced by 17 percent and there has been considerable consolidation into the Figueroa Plaza complex and vacant space within the upper floors of City Hall.

1.3 Key Observations from the 2009 Strategic Real Estate Plan

Table 1-1 below summarizes the key observations and recommendations from PA's review of the 2009 Plan. Note that there is a new office building proposed to be built on the site of the vacated Parker Center Building. The new office building is called the "New Civic Center Building," which, together with the various City Hall buildings, would be considered the Civic Center Complex.

Table 1-1: Key observations and recommendations from PA's Review of the 2009 Plan

Elements of 2009 Plan	Observations	Recommendations
Guiding Principles	Observation 1: The 2009 Plan includes 14 guiding principles underpinning the strategic vision. The Guiding Principles are helpful and significant progress was made in realizing 9 of the 14 principles.	<ul style="list-style-type: none"> PA recommends that these principles be reviewed and simplified, and the non-strategic or visionary "principles" be moved to more appropriate elements of the plan.
Civic Center Concept	Observation 2: The City has continued to pursue the Civic Center concept.	<ul style="list-style-type: none"> The City should continue its efforts to finalize the Civic Center Complex and the construction of a new office building at the Parker Center site.
	Observation 3: The City has been consolidating downtown leases into the Figueroa Plaza building but has had some limitations placed on it by non-City tenants that exist in Figueroa Plaza.	<ul style="list-style-type: none"> The City should explore alternative leasing options with the non-City tenants (for instance, propose relocation into other City-owned buildings).
Los Angeles Mall	Observation 4: Decisions pertaining to the future of the Los Angeles Mall, including upgrades, are pending until the approval of the EIR for the new Civic Center building. In addition, the MFC has instructed City staff to create a comprehensive master plan for the redevelopment of the LA Mall.	<ul style="list-style-type: none"> PA and Cushman & Wakefield, in consultation with the CAO, have completed a separate study focusing on the optimization of the Mall use. The study recommends that the management of the Mall be transferred to a private development firm which would explore redevelopment solutions mutually beneficial to the City and its tenants. It further recommends the City develop a new RFP which would specifically take into consideration entitlement, infrastructure, air space and parking.
Cost-Effective Management of Assets	Observation 5: The current emphasis on reducing the number and cost of downtown leases may not optimize cost-effectiveness and benefits in the long term. For example, it may be in the City's best economic interest to lease out some of its own assets to non-City tenants who are paying favorable terms to the City and keep some of the downtown leases wherein the City has negotiated very favorable lease terms as a lessee.	<ul style="list-style-type: none"> The City should seek to comprehensively optimize all its costs.
Public Access	Observation 6: The City departments have not fully coordinated the decentralized delivery of services at the City's locations beyond City Hall, Civic Center, and Figueroa Plaza.	<ul style="list-style-type: none"> The City should apply the 4 Cs – Comprehensive, Consistent, Coordinated and Cost-effective when analyzing the delivery of decentralized services.
Economic and Financial Benefits of Assets	Observation 7: The City lacks an approved policy which ensures that properties leased to non-profit organizations are consistently and cost-effectively managed.	<ul style="list-style-type: none"> PA has reviewed a draft of the pending Non-Profit Lease Subsidy and Real Property Sale Policy and recommends the adoption and approval of the Policy by Council and Mayor, contingent on a few modifications laid out in this chapter.

1.4 Progress against Guiding Principles

The City faced significant challenges in executing the 2009 Plan. The 2009 Plan was developed and implemented at a time when the City was expecting and experiencing severe financial constraints and staffing cuts. Resources were (and remain) scarce; competing for funds to invest in space consolidation or facilities improvements was difficult if not impossible. Given these financial constraints, the City nevertheless made progress in successfully implementing elements of the 2009 Plan. The City:

- Reduced its leased expenditures by 17 percent from FY09-10 through FY13-14, with a plan to reduce them by another 30 percent by FY19-20
- Made considerable progress with regards to the consolidation into the Figueroa Plaza complex as well as the Civic Center buildings
- Completed the Public Works Building Consolidation in 2012 by relocating Bureau staff from various other City and leased locations into the Public Works Building
- Relocated various LAPD Internal Affairs Units from leased locations to City-owned facilities
- Generated revenues since 2009 by disposing of surplus properties
- Transitioned to a “greener” real estate portfolio to reduce operating costs.

With the onset of the recession in 2008, the City has had to give more weight to near-term financial considerations when making decisions, especially when dealing with facility-related costs. Such decision-making can, however, have “hidden costs” in the mid-term or long-term. Still, the City has made notable progress to increase long-term efficiencies as outlined above.

Lastly, the City has made significant progress in adhering to nine of the 14 guiding principles outlined in the 2009 Plan. The current progress made in realizing the Guiding Principles is displayed in the charts found in Appendix A.

1.5 Recommendations

The detailed implementation sections of the 2009 Plan focused primarily on the Civic Center area and excluded from its scope all real estate under the auspices of the Los Angeles Police Department, the Los Angeles Fire Department, the Department of Water and Power, the Department of Airports and the Harbor Department. The new 2014 Real Estate Strategic Plan (2014 Plan) takes a more holistic approach to become “City-wide”, and considers more properties which are owned or leased by the City, i.e., Council-controlled properties, as well as occupied and unoccupied space.

Strategic planning is a critical process within any organization or group – this is especially true for planning activities as critical as real estate asset management for the City in an increasingly uncertain and volatile environment. The 2014 Plan provides the direction and guidance needed to shape what the Asset Management function is, what it does, and why it does it. In particular, the 2014 Plan includes considerations of:

- Long-term investment strategies and programs
- Changes in regulatory and political regimes

- Transformational changes in the business model – processes, organization and systems
- Major human capital challenges, such as skilled labor shortages
- Evolving customer expectations.

Since these considerations may evolve with time, the 2014 Plan is considered a living document which should be updated every three to five years.

Based on these considerations and in order to further expand the City's focus on asset management, PA recommends that the City implement a new Strategic Asset Management Model. The model proposed by PA represents a way to clarify and organize the "Guiding Principles" from the City's previous strategic plans while closing the gaps identified in the 2009 Plan and applying best practices. PA suggests this model be based on the following four revised, simplified Guiding Principles.

1. **Support City services and public access** – The City's primary interest in its facilities must be to ensure that those facilities support its ongoing operations. The City must provide safe and convenient public access to its services. It also must strive for improved efficiency in City operations by ensuring that City workers are located in proximity to those with whom they do business, and by providing safe, clean sites that are technologically up-to-date.
2. **Be environmentally responsible** – As a socially responsible and global organization, the City has both a fiscal and moral imperative to maintain its properties in an environmentally responsible manner.
3. **Optimize economic and financial benefits** – The City should consider how the properties can generate other benefits, such as job creation, economic growth, revenue, or providing space to non-profit organizations that serve particular populations. As it undertakes these efforts, the City should look to identify where public-private or public-public partnerships can be implemented. In addition, the City should identify and prioritize properties with private use restrictions: all the properties identified as high potential should be reviewed and a benefit optimization plan should be developed.
4. **Be cost-effective** – Regardless of how the facilities are used, the City must manage its properties in the most cost-efficient manner possible. In this era of reduced revenues, ensuring that properties are acquired and maintained at the lowest effective cost is critical.

The revised, simplified 2014 Guiding Principles map closely to the original 2009 Guiding Principles, as shown below in Table 1-2.

Table 1-2: 2014 Guiding Principles mapped to original 2009 Guiding Principles

2014 Guiding Principles	2009 Guiding Principles	Expected Benefits
<p>1. Support City Services and Public Access</p>	<ul style="list-style-type: none"> • Departments should be clustered together by purpose or customer to improve operational effectiveness and service • City governing bodies and their support departments should be localized in close proximity to each other in the Civic Center • Office functions should be consolidated in fewer locations, which leads to occupancy cost savings and operational efficiencies 	<ul style="list-style-type: none"> • Higher customer service levels • Increased resident accessibility to government • Flexibility / agility while managing changing conditions
<p>2. Be Environmentally Responsible</p>	<ul style="list-style-type: none"> • Every City facility should be a “Green Facility”. All new buildings must be LEED Silver or higher 	<ul style="list-style-type: none"> • “Greening of Los Angeles”; environmentally friendly • Increased regulatory compliance (for example, the City’s Green Building Ordinance)
<p>3. Optimize Economic and Financial Benefits</p>	<ul style="list-style-type: none"> • Long-term office needs should be satisfied with long-term solutions • A balance should be maintained between owned and leased facilities so that the City can benefit as market conditions and space requirements change • Short-term office needs should be satisfied via flexible leases 	<ul style="list-style-type: none"> • Processes are documented, repeatable, efficient, and continuously improving • Decision-making is system-supported via an AMS • Higher revenues while mitigating risk
<p>4. Be Cost Effective</p>	<ul style="list-style-type: none"> • Joint-use facilities (i.e., maintenance yards) are more cost-effective than single purpose facilities • Facilities that are over 50 years old should be replaced or revitalized • Surplus Property should be disposed of immediately (sell, reuse, or develop) • Non-profits in City facilities must be profitable either through services or rent. • All retail revenue-generating opportunities using public-private partnerships should be maximized • A comprehensive computer database is essential for the management of real estate assets • Professional asset management must support the delivery of municipal services. Decisions must be made in support of human resources, customer satisfaction, and information technology 	<ul style="list-style-type: none"> • Contained short-term and long-term costs • Mitigation of deferred maintenance of City properties • Efficient use of City resources • Shorter cycle times for identification and disposition of surplus property • Proliferation of joint business – City partnerships • Better accessibility to LA real estate asset information (via AMS) • More effective delivery of LA municipal services

2 SUMMARY OF THE ORGANIZATIONAL DESIGN

2.1 Overview

PA has been working with the City Team specifically focusing on the way people, processes and systems are utilized to manage the City's real estate assets. As part of this work, PA has reviewed the current organizational structures and processes and identified potential improvements leading to a more desirable future state.

This Section 2 provides a summary of PA's overview of the City's current and desired state of real estate services and puts forward recommendations based on the review of budgets, organizational charts, and interviews with City staff. PA concludes that the proposed future state recommendation for organizational design is intended to create efficiencies by reorganizing the roles and functions of each member of the City Team, allowing for the use of external contractors, and delineating a clear process for real estate issues from inception to completion.

PA's full report entitled "Asset Management Organizational Design Review" can be found in Appendix B.

2.2 Current State Organization of the City's Real Estate Functions

Currently, most real estate related issues or requests are directed to GSD, though GSD's resources have been significantly cut over the last several years. In addition, the method for communicating needs to GSD by the City family (e.g., elected Offices, various City departments) is done in an inconsistent manner. Oftentimes, requests for services are lost or not completed, as the volume is too much to handle by GSD alone.

The City's ability to deal with real estate issues is severely hampered by a lack of effective information technology and data management. Even simple requests for information, such as a copy of a lease agreement, can take significant staff time and may or may not result in the needed information being found.

Another City department that has also experienced significant staffing cuts is the Office of the City Attorney. Due to limited resources, the Office of the City Attorney is frequently unable to advise on and process real estate documents in a timely manner.

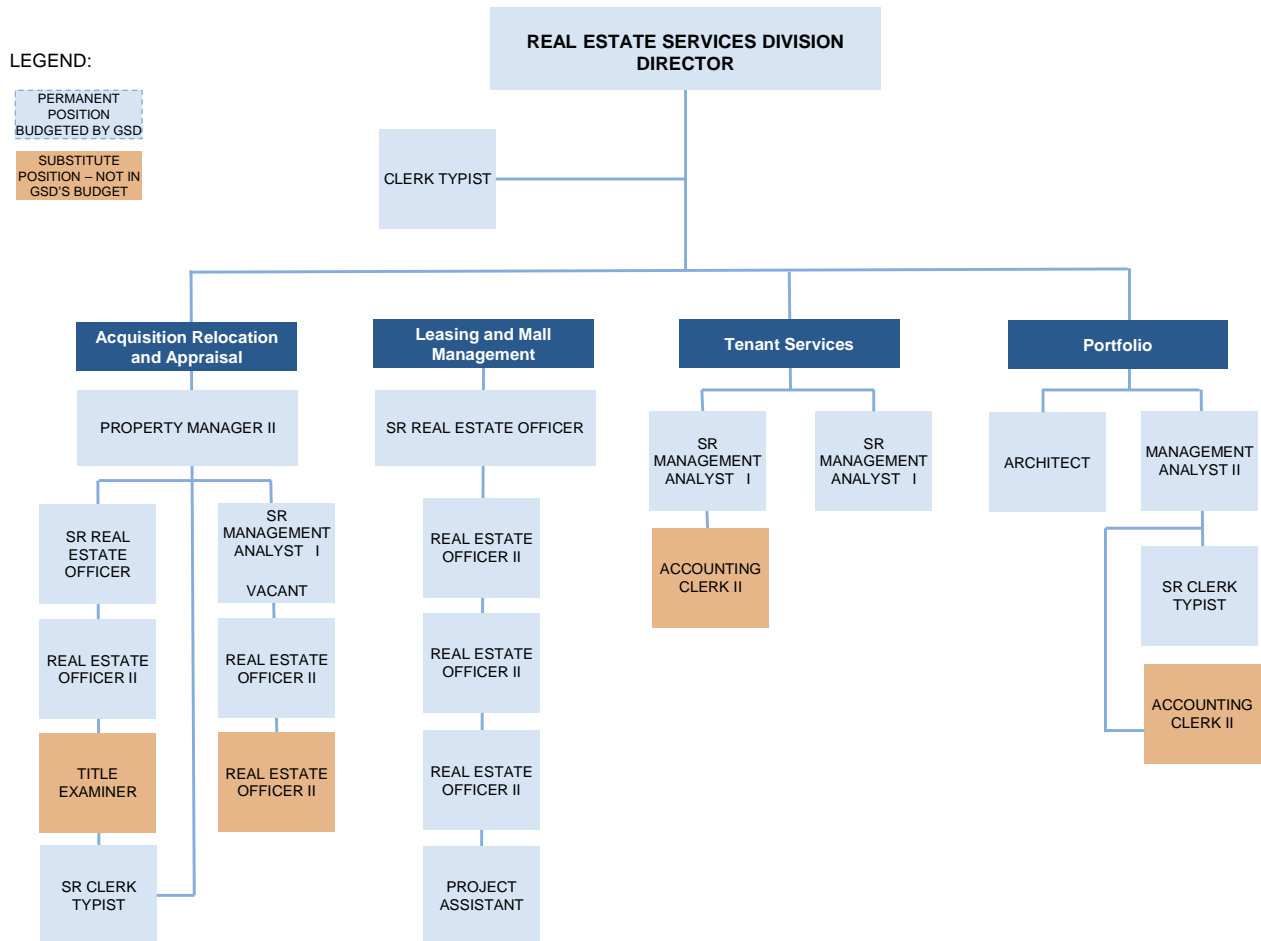
Factors including the volume of requests received by GSD, reduced resources at the Office of the City Attorney, time consuming data retrieval processes, as well as time-consuming manual processes are resulting in unnecessarily long response times and the lack of follow-through on complex real estate needs.

Breakdowns in the core areas of systems, processes and human resources are limiting the City's ability to effectively manage its real estate assets and achieve its strategic goals.

For the City to fulfill its real estate mission going forward, it needs to modernize its systems, reorganize, and adopt new processes and policies. Aligning people, processes and technology will enable the City to follow a roadmap to a more efficient and effective Asset Management end state.

Figure 2-1 below depicts the 2013 organization of GSD's Real Estate Services Division (RES)

Figure 2-1: 2013 organization of GSD's Real Estate Services Division



2.3 Recommended Future State Organization of the City's Real Estate Functions

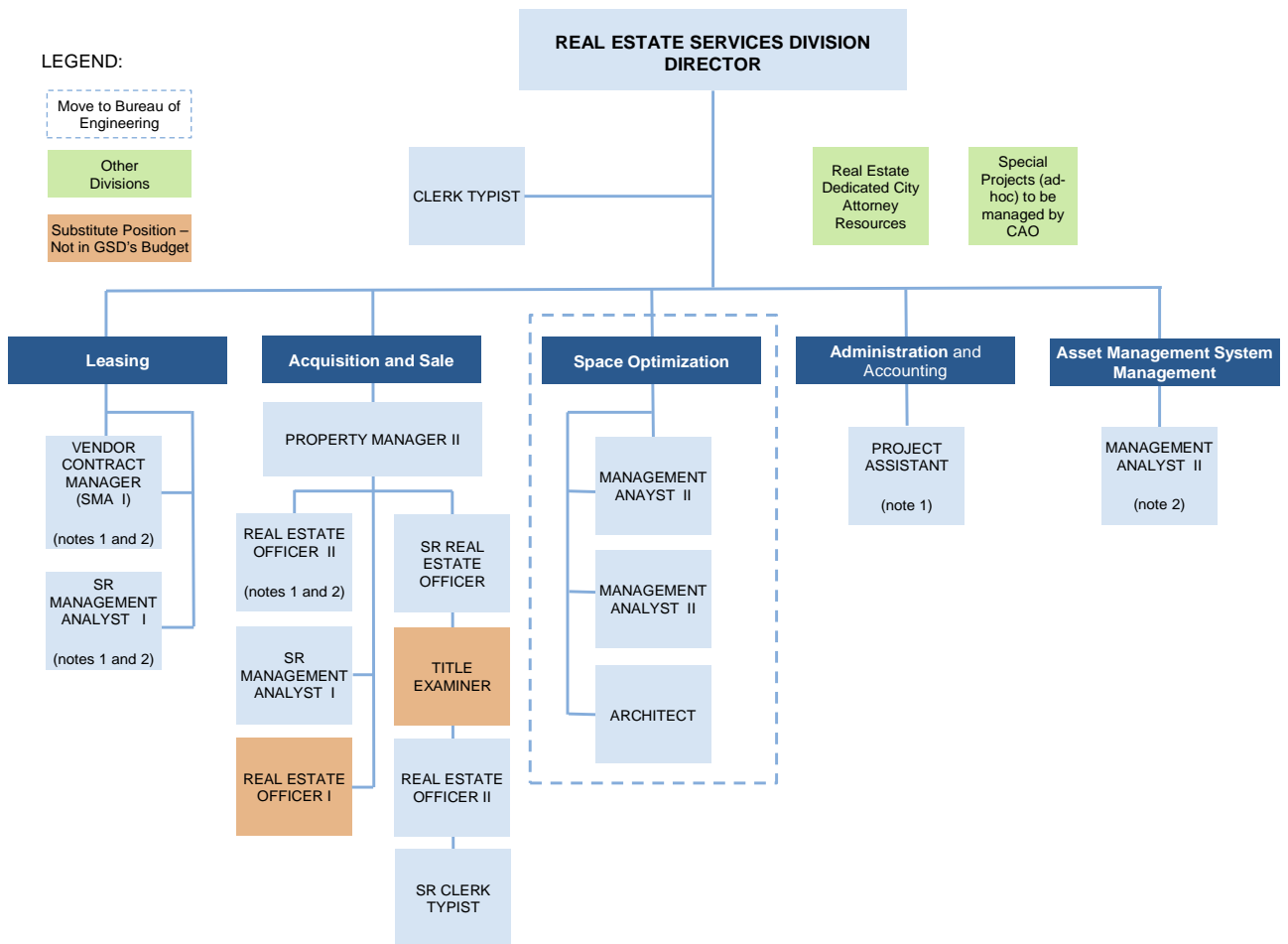
The recommendations focus primarily on organizational aspects. If implemented, the proposed future state for the City's Real Estate functions would:

- Create clear processes and procedures for the leasing function.
- Streamline all real estate requests through the Municipal Facilities Committee (MFC).
- Establish additional dedicated City Attorney resources.
- Decrease inefficiencies and improve customer service.
- Make use of external contractors and subject matter experts for the leasing function.
- Separate managerial/administrative roles from development and transactional functions.
- Ensure real property information is updated and maintained.

- The Floor Plan functions and Space Optimization functions should be transferred to the Bureau of Engineering (BOE).
- Create three positions in CAO AMSP to perform special projects and manage large ad-hoc projects for the City.

Figure 2-2 below depicts the recommended future organization of the City's Real Estate Functions/Roles

Figure 2-2: Recommended Real Estate Services Division Organization Chart



Note 1: Specific classification to be determined by the City

Note 2: Number of resources to be determined by the City based on the specific AMS procured

2.4 Policies and Procedures

PA Consulting recommends the following changes to policies and procedures:

- Leases:
 - Requests for new leases or lease renewals should be integrated into the budget process, where possible, and submitted on an ad hoc basis only in unforeseen situations.
 - The new AMS should flag all leases due for expiration within the next 12, 6 and 3 months for immediate notification to MFC and actual processing by GSD staff.
- The City should develop and maintain an inventory of all the projects undertaken, with an ability to track progress and responsible parties for increased accountability. The inventory should be reviewed by MFC on a monthly basis with at least the following:
- Project description (who, what, when, where why)
 - Status (completed, in-progress, queued)
 - Priority (high, medium, low)
 - Any change in priority or projects since the last MFC meeting
 - Chronological position of projects
- Further policies and procedures decisions should be made during the implementation of the new AMS.

2.5 Summary of Recommendations

The full Organizational Design report provides detailed descriptions of each of the recommendations (see Appendix B). Table 2-1 below summarizes the recommendations.

Table 2-2 below summarizes the advantages and disadvantages of procuring Leasing Services. Though procurement of leasing services has its share of advantages and disadvantages, the many benefits that procurement of leasing services brings can outweigh its disadvantages, if it is managed carefully. Many of the pitfalls of procuring leasing services can be avoided by choosing the right provider. .

Table 2-1: Summary of Organizational Design Recommendations

Category of Recommendation	Description of Recommendation	References / Notes
1. Leasing Services	<ul style="list-style-type: none"> The City should create clear leasing processes and procedures 	<ul style="list-style-type: none"> See Section 4.1 of the Organizational Design document
	<ul style="list-style-type: none"> The City should consider procuring services for the process of managing City lease contracts.. The City should conduct an RFP process to solicit competitive bids from leasing service providers. 	<ul style="list-style-type: none"> See Section 4.2.1 of the Organizational Design document See Table 2-2 below for discussion of advantages and disadvantages of procurement of leasing services
	<ul style="list-style-type: none"> If the City decides to procure leasing services, then the City should create a Vendor Contract Manager position to be the point of contact with respective third party brokers. 	<ul style="list-style-type: none"> See Section 4.2.1 of the Organizational Design document
	<ul style="list-style-type: none"> Create a Senior Management Analyst position to manage City-owned and occupied buildings. 	<ul style="list-style-type: none"> See Section 4.2.1 of the Organizational Design document
	<ul style="list-style-type: none"> The City should implement a lease renewal process, and develop and maintain an inventory of all the projects undertaken. 	<ul style="list-style-type: none"> See Section 4.2.12 of the Organizational Design document
2. Floor Plans and Space Optimization Functions	<ul style="list-style-type: none"> The Floor Plan functions and Space Optimization functions should be transferred to the BOE. BOE should decide whether to procure outside services to manage floor plan updates 	<ul style="list-style-type: none"> See Section 4.2.5 of the Organizational Design document
3. Acquisition and Sale Function	<ul style="list-style-type: none"> RES should develop and rigorously document the Acquisition and Sale processes 	<ul style="list-style-type: none"> See Section 4.2.2 of the Organizational Design document
4. Administration and Accounting Functions	<ul style="list-style-type: none"> RES should create an administration and accounting position dedicated to administrative support as well as to lease management functions. 	<ul style="list-style-type: none"> See Section 4.2.3 of the Organizational Design document
5. IT	<ul style="list-style-type: none"> RES should create a position dedicated to the management and use of the new AMS. 	<ul style="list-style-type: none"> See Section 4.2.4 of the Organizational Design document
6. Dedicated Real Estate City Attorney Resources	<ul style="list-style-type: none"> The City should create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate-related requests. 	<ul style="list-style-type: none"> See Section 4.2.6 of the Organizational Design document
7. Special Projects and CAO AMSP	<ul style="list-style-type: none"> The City should create three positions in CAO AMSP to perform special projects and manage large ad-hoc projects for the City. 	<ul style="list-style-type: none"> See Section 4.2.7 of the Organizational Design document
8. Non-Profit Leases	<ul style="list-style-type: none"> The City should adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” published April 16, 2010. 	<ul style="list-style-type: none"> See Section 4.3.5 of the Organizational Design document

Table 2-2: Summary of the Advantages and Disadvantages of Procuring Leasing Services

Advantages of Procuring Leasing Services	Disadvantages of Procuring Leasing Services
<ul style="list-style-type: none"> • Procuring Leasing Services reduces the overhead costs from running back-end operations and streamlines cash flow • Procuring Leasing Services helps the City to regain operational control of leasing • Better quality of services provided through the use of leasing Subject Matter Experts • Procuring Leasing Services provides flexibility in staffing and manpower management • Procuring Leasing Services for simplification and/or improved flexibility of leasing processes 	<ul style="list-style-type: none"> • Risk of compromising sensitive data and the loss of confidentiality • Procuring Leasing Services could cause the City to lose management control of the leasing function • Quality problems can arise if the procured services provider lacks proper leasing processes and/ or experienced staff • Supplier risk – the City may become heavily dependent on the procured leasing provider. In this case, risks such as supplier bankruptcy and financial loss cannot be controlled

3 SUMMARY OF ASSET MANAGEMENT SYSTEM (AMS)

3.1 Overview

The City of Los Angeles is performing a review of its asset management functions in order to identify areas for improvement. PA Consulting is working with the City Team specifically focusing on the way people, processes and systems are utilized to manage the City's real estate assets. As part of this work, PA has reviewed the City's current real estate systems and has determined the City's needs in a future AMS.

The City currently uses a multitude of single-function tools (that is, systems (like Excel) which serve an important purpose (such as tracking real estate portfolios) are not tightly linked to other systems, like financial reporting systems, which serve a different though related purpose). This "systems fragmentation" does not sufficiently support asset management functions:

- There are inefficiencies, arising from having to manually update and maintain the single-function tools (most of which are excel spreadsheets)
- There is no self-service capability. Stakeholders have to manually request real estate data, even the most basic of data, from GSD, which results in very long response times and takes away limited GSD resources from their core functions
- There is no single source of truth for data. Data is scattered across multiple solutions, requiring manual reconciliation, leading to data integrity issues. Oftentimes, data is incomplete or inaccurate.

PA Consulting's full report entitled "Selection of the City of LA Asset Management System" can be found in Appendix C. It should be noted that the 2009 Plan also recommended that the City acquire and implement an AMS.

3.2 Selection of an Off-the-Shelf Asset Management System (AMS)

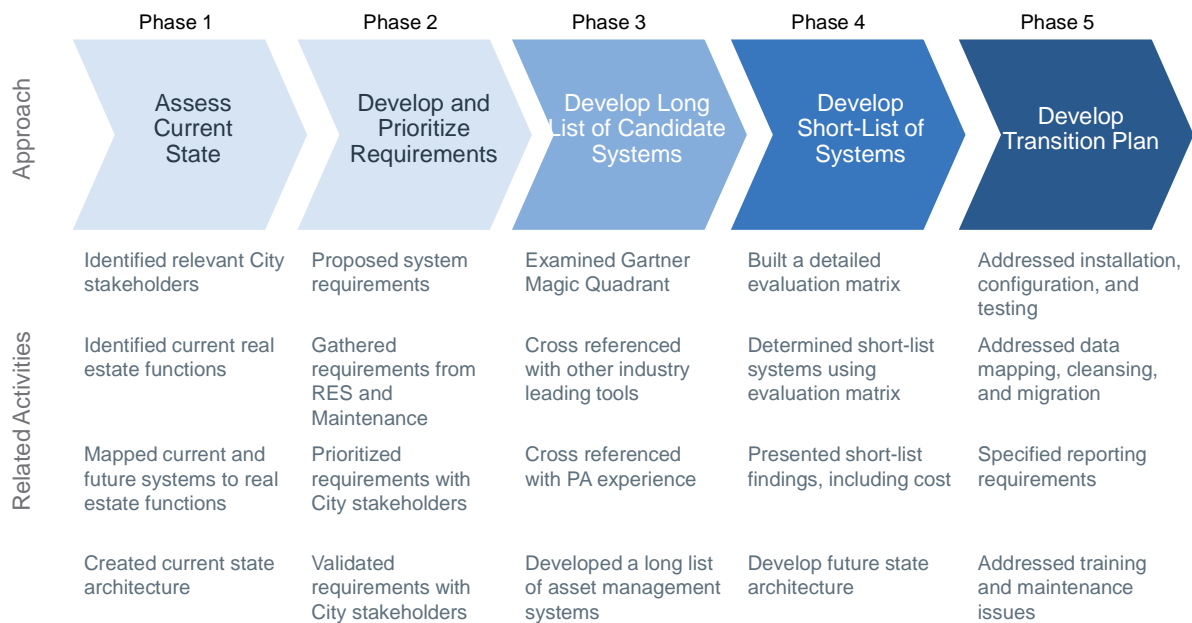
PA has worked with the City to recommend leading off-the-shelf AMS that address the challenges enumerated above. PA ultimately shortlisted the following vendors (in no particular order):

1. IBM Tririga
2. Archibus
3. Manhattan Software
4. FM-Systems
5. AssetWorks.

Furthermore, PA has provided recommendations, with regards to the implementation roadmap or transition plan, for the City's new AMS which address key challenges such as data cleansing.

A five phase approach was followed to recommend market leading real estate systems and to develop a transition plan. This approach is depicted in Figure 3-1 below.

Figure 3-1: Selecting and Implementing an Asset Management System



The City is currently hindered by outdated methods of keeping data and not fully maximizing the potential of the data, thereby creating inefficiencies and, more importantly, costing the City in unnecessary expenses and lost revenue. To efficiently manage a vast and valuable real estate portfolio like the City’s, a high-functioning AMS is an absolute necessity. Fortunately, the City is now well-positioned to launch an RFP to procure an AMS.

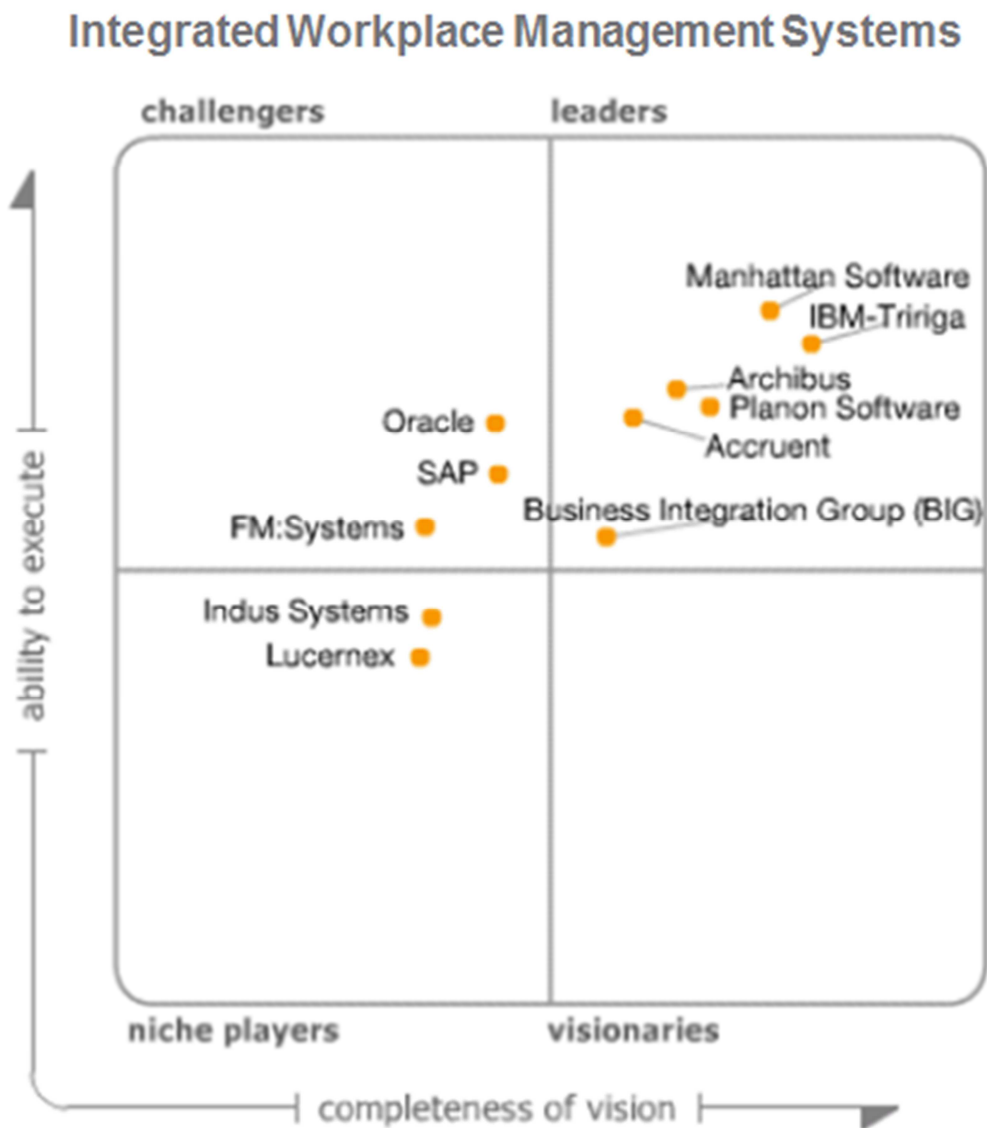
Current and Future State Systems’ Architecture Development

The City should develop a formal, integrated, and modern systems architecture. This new systems architecture would replace a much less formal, inefficient, disintegrated and manual process. The current real estate database architecture includes multiple Excel and Access databases which are not centralized, are maintained independently by multiple owners, are not linked, and are not accessible to stakeholders outside GSD.

3.3 System Evaluation and Down-Selection

Market research and the latest Gartner Magic Quadrant were used to select the 15 Asset Management Systems (also known as Integrated Workplace Management Systems (IWMS)) best suited for the City’s scale and complex needs. See Figure 3-2 below for the “long list” of 11 of the 15 initially-selected systems.

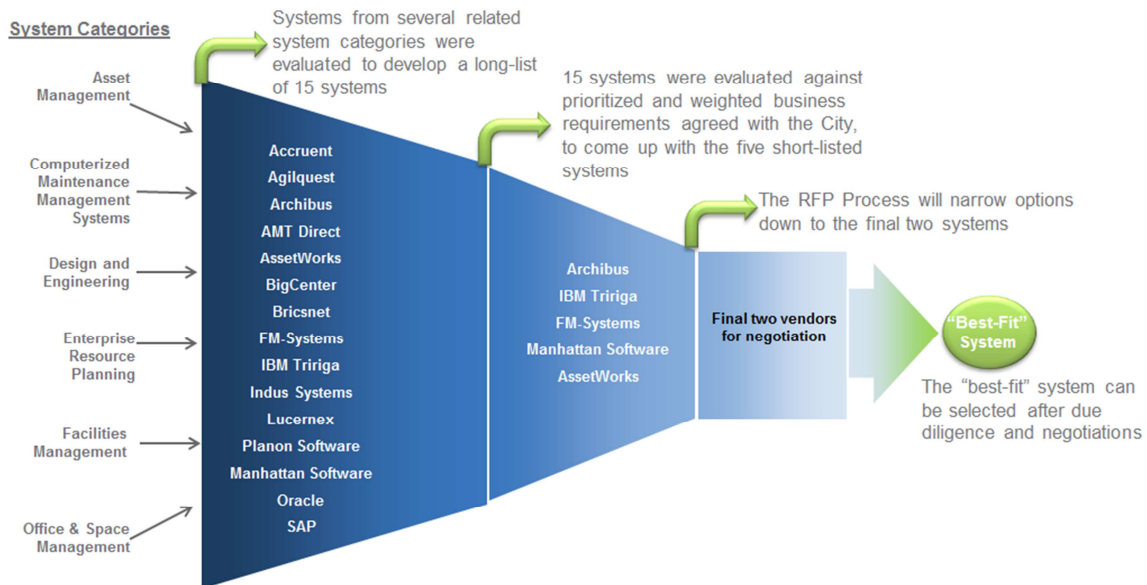
Figure 3-2: Gartner Magic Quadrant for IWMS (AMS)



Source: Gartner, 17 June 2013 Magic Quadrant for Integrated Workspace Management Systems

PA went beyond the 11 systems characterized by Gartner – 15 “long-listed” systems were evaluated against prioritized and weighted business requirements agreed with the City, to come up with the 5 “short-listed” systems. Down-selection of these 5 IWMS systems was based on compliance with the proposed future state architecture and the City’s business requirements and priorities. See Figure 3-3 below for a visual depiction of the system evaluation and down-selection process.

Figure 3-3: Overview of IWMS (AMS) Evaluation and Down-Selection Process



3.4 Estimated System Pricing for Budgetary Purposes

The bulk of the asset management system costs relates to the system implementation, training and support. Estimated price ranges for Tririga and Archibus have been provided for budgeting purposes. Estimates (based on 2014 costs/dollars) focused on:

- License fees for the modules the City is interested in acquiring
- Implementation, training and support costs.

License fees (at list price) for the two systems are as follows:

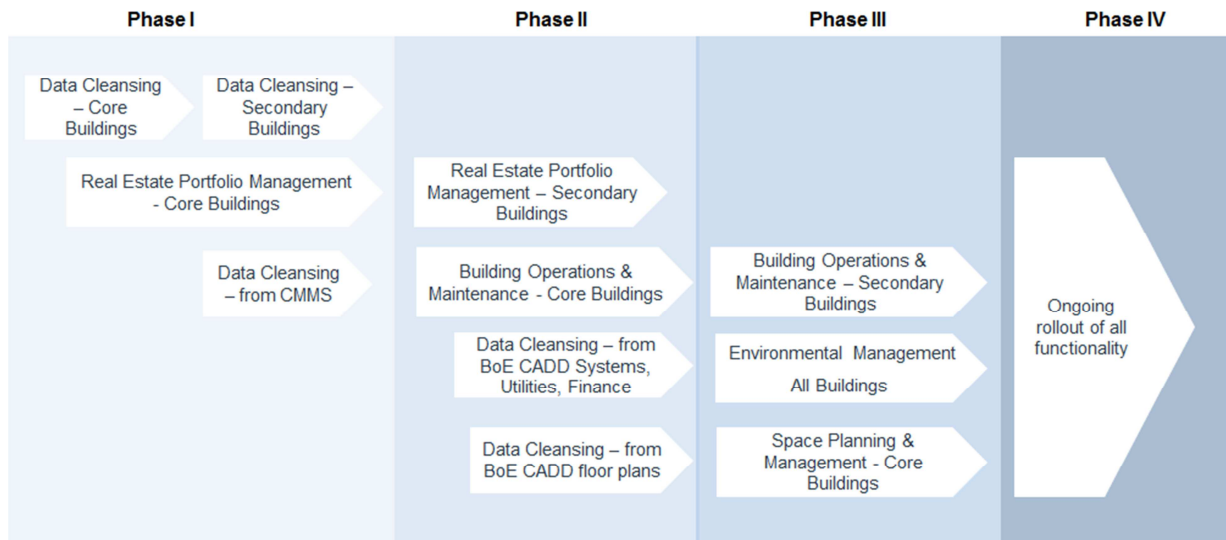
- Tririga: approximately \$250k
- Archibus: approximately \$66k

In addition, Tririga provided a range of \$750k-\$1M to cover implementation, support and training expenses. Note that the City will have the opportunity to aggressively negotiate prices during the vendor selection process. Municipalities can usually safely target a 10% to 20% discount on the system list price.

3.5 Draft Implementation Roadmap

PA Consulting has drafted a high level draft roadmap which takes into account numerous considerations to provide a pre-RFP view of the sequencing of initiatives. See Figure 3-4 below.

Figure 3-4: Draft System Implementation Roadmap



This draft roadmap provides a framework for discussion about the priority of initiatives, dependencies on other initiatives taking place at the City, and the appropriate business case and budgetary discussions that will take place to support investments in those initiatives. The roadmap is expected to change as this discussion progresses both before and during the RFP process, vendor due diligence, finalization of the agreement and implementation planning with the selected vendor.

3.6 Interim Property Inventory Database

While GSD’s old Asset Management System is no longer in use, the current database architecture consists mostly of multiple Excel spreadsheets which are not part of an integrated system. PA was asked to aggregate all the City properties data into one unique database.

PA has completed this task and provided the City with an interim database. In addition, PA developed a tool which:

- Automates the process PA implemented to build the new database (i.e. the aggregation of data from multiple spreadsheets into one unique database)
- Provides a query function
- Automates some data entry functions (such as entering the information related to a new acquisition)

PA has demonstrated the tool to the City Team and has installed it on GSD’s server.

3.7 Anticipated Benefits of AMS Implementation

Table 3-1 on the next page illustrates the anticipated benefits that would result from implementing an AMS for the City.

Table 3-1: Anticipated Benefits of AMS (a.k.a., IWMS) Implementation

Benefit	How Benefits are Realized
Greater Revenues	<ul style="list-style-type: none"> • Better clarity and understanding with regards to lease/buy and sell/rent options • Increased quality and granularity of data to be used in various funding/granting opportunities • For City-owned buildings with tenants, lease contract expiration notifications providing the City adequate time to renew or find new tenants • Optimized space utilization leads to additional property inventory being available for lease/sale
Reduced Costs	<ul style="list-style-type: none"> • Reduced lease and maintenance costs due to optimized space utilization • Lower utility bills through better monitoring of each building's power and water consumption • Extended asset life through preventive and condition-based maintenance • An AMS holds equipment warranty information, thereby preventing the City from replacing defective equipment at full cost while it may still be under warranty
Reduced Risk	<ul style="list-style-type: none"> • Notification tools will notify City users when, for instance, a lease is about to expire and the contract needs to be revised/extended, thereby preventing the current situation where the City is exposed to the fluctuations of the real estate market since the majority of the City's lease portfolio is on a month to month state
Improved Customer Service	<ul style="list-style-type: none"> • An AMS would include multiple self service capabilities • The response time for internal and external data requests is significantly reduced • Productivity is increased • Information is easily accessible and shared throughout the organization • Real estate reports are automated • The audit of utility bills can be automated • Maintenance requests are automated, thereby reducing response times • The deployment of an AMS will significantly minimize human errors • Centralized real estate data: the City's current real estate data is spread out across multiple databases, causing significant issues with the integrity of the data. With a new AMS, the data will be centralized, simplifying its maintenance and ensuring its integrity • Monitored Performance: built in, tailored dashboards as well as advanced reporting functionalities will enable the City to monitor its asset and portfolio management performance
Improved Environmental Management Compliance	<ul style="list-style-type: none"> • An AMS includes multiple tools which will enable the City to get a better knowledge and understanding of the environmental efficiency of its assets and ultimately expedite the progress towards a greener portfolio

3.8 Summary of Asset Management System (AMS) Recommendations

The full Asset Management System (AMS) report provides detailed descriptions of each of the recommendations (see Appendix C). Table 3-2 below summarizes the recommendations.

Table 3-2: Summary of Recommendations for Asset Management System (AMS)

High-level Recommendation	Description of Recommendation	References / Notes
<p>1. Select AMS via Request for Proposal (RFP) process</p>	<ul style="list-style-type: none"> • More detailed AMS requirements (business, functional, and technical) should be defined during the RFP process. Review system requirements to make them as robust as possible • The RFP process will provide the City with a greater level of understanding and familiarity with the capabilities of the preferred AMS system and will enable clearer requirements and decisions about the optimal AMS to be selected 	<ul style="list-style-type: none"> • See Section 2.2 of the “2014 Selection of the City of LA Asset Management System” report for description of proposed future state with AMS • See Sections 3.2 – 3.4 of the “2014 Selection of the City of LA Asset Management System” report for baseline requirements
<p>2. Include five AMS products in the RFP process</p>	<ul style="list-style-type: none"> • Three of the five systems PA short-listed (Archibus, Tririga and Manhattan Software) are listed as “leaders” in the latest Gartner Magic Quadrant • AssetWorks, which the City currently uses at the Port, should be included in the RFP. However, its Real Estate Portfolio Management module is not as comprehensive as some of its competitors • FM Systems is also a strong candidate 	<ul style="list-style-type: none"> • See Section 4.3 of the “2014 Selection of the City of LA Asset Management System” report
<p>3. Cleanse existing Real Estate data prior to implementing AMS</p>	<ul style="list-style-type: none"> • The successful implementation of a new system is contingent on the use of sufficiently accurate and up-to-date real estate data • Implementation of a rigorous and efficient data cleansing process 	<ul style="list-style-type: none"> • See Section 6.1 of the “2014 Selection of the City of LA Asset Management System” report
<p>4. Develop a detailed Road Map and AMS Implementation Plan</p>	<ul style="list-style-type: none"> • The roadmap provides a framework for discussion among City stakeholders about the priority of AMS initiatives, their dependencies to other initiatives taking place at the City • Ensure that an appropriate business case and budgetary discussions take place to support investments in AMS implementation 	<ul style="list-style-type: none"> • See Section 6.2 of the “2014 Selection of the City of LA Asset Management System” report
<p>5. The City should move forward with the RFP once the budget is in place</p>	<ul style="list-style-type: none"> • Develop and execute RFP process for system selection based on City’s business requirements • Conduct initial data cleansing analysis and assessments 	<ul style="list-style-type: none"> • See Section 5 of the “2014 Selection of the City of LA Asset Management System” report

3.9 AssetWorks and PROPworks Discussion

Table 3-3: Summary of the Advantages and Disadvantages of Leveraging AssetWorks (used at the Port of Los Angeles)

Advantages of Leveraging AssetWorks (instead of purchasing a new AMS)	Disadvantages of Leveraging AssetWorks (instead of purchasing a new AMS)
<ul style="list-style-type: none"> AssetWorks (also known as “AssetWorks’ Facilities Asset Management Software”) has strong portfolio management, space planning, maintenance management and energy management capabilities 	<ul style="list-style-type: none"> AssetWorks’ Real Estate Portfolio Management module is not as comprehensive as its competitors AssetWorks software would likely require extensive customization to meet the City’s requirements
<ul style="list-style-type: none"> The Port of Los Angeles (POLA) has extensive experience with implementing and maintaining the AssetWorks system 	<ul style="list-style-type: none"> The City should invest time during the RFP process to understand the procurement and implementation of AssetWorks at POLA The City would likely have to depend on both AssetWorks and third-party consultants to assist in an AssetWorks implementation
<ul style="list-style-type: none"> The City could potentially negotiate with AssetWorks to obtain an enterprise license for the City and the Port of Los Angeles, thereby reducing licensing costs 	<ul style="list-style-type: none"> The AssetWorks software is relatively expensive – the Port paid approximately \$397,000 for software and services for 20 users POLA contractually does not at this time have extra licenses at this time that can be shared with the City; that provision in the contract has expired
<ul style="list-style-type: none"> The City can leverage the POLA’s RFP and procurement contract (as a reference) while selecting and procuring a new AMS 	<ul style="list-style-type: none"> The City’s detailed AMS requirements differ from the Port’s AMS requirements. These differences should be explored during the RFP process
<ul style="list-style-type: none"> The City may be able to leverage many customizations made by POLA to implement and customize AssetWorks to their needs 	<ul style="list-style-type: none"> The City may not be able to leverage many customizations made by the POLA to implement and customize AssetWorks to their need.

Table 3-4: Summary of the Advantages and Disadvantages of Leveraging PROPworks (used at LAWA)

Advantages of Leveraging PROPworks (instead of purchasing a new AMS)	Disadvantages of Leveraging PROPWorks (instead of purchasing a new AMS)
<ul style="list-style-type: none"> • PROPworks is relatively inexpensive. LAWA pays approximately \$26,000 annually for support and maintenance • PROPworks meets LAWA requirements for: <ul style="list-style-type: none"> – Agreement Management – Billing & Invoicing – Company & Contact Management – Concessions/Sales Management – Risk Management – Aviation Statistics – Space Management (non-graphic) – SAP Interface – Utility Management 	<ul style="list-style-type: none"> • PROPworks functionality is sold by Air IT Transport Services, Inc. and is designed for use at Airports. PROPworks does not meet City Requirements • PROPworks will not meet the City's requirements, for example: <ul style="list-style-type: none"> – Asset management – Portfolio management – Lease management and lease accounting – Provide a planning framework to define, measure, and report on facility objectives and performance goals across a property portfolio, neighborhood, set of facilities – Provide pre-built processes, data, reports, and performance metrics to support internal and external targets e.g., utility (power and water) usage, energy efficiency certification, Green House Gas Emissions, energy management systems certification, and energy ratings for core buildings

3.10 Document Management System (DMS) Supplier Discussion

In 2008 the City purchased 150 client licenses of Documentum, a well-known and respected Document Management System (DMS). As described in the 2014 Plan in Sections 4.1.2 and 4.2.2, the City should procure and implement a DMS to create faster access to key documentation in a controlled environment. It is unlikely that an AMS will have the functionality necessary to provide information and records control per ISO 15489.

Table 3-5: Summary of the Advantages and Disadvantages of Leveraging Current Documentum DMS Solution

Advantages of Leveraging Documentum (instead of purchasing a new DMS)	Disadvantages of Leveraging Documentum (instead of purchasing a new DMS)
<ul style="list-style-type: none"> • Documentum has been implemented in five (5) City departments, and there are experienced City users • The Documentum system is already administered by the City ITA, so there would likely be little (if any) learning curve for the existing Documentum solution 	<ul style="list-style-type: none"> • However, the 2005 purchased client version of Documentum is considered old and obsolete <ul style="list-style-type: none"> – Documentum licenses would have to be upgraded in order to be available to the CAO. – Upgrade costs are unknown at this time, but would be discovered via the RFP process
<ul style="list-style-type: none"> • Rigorous requirements and selection criteria were used for the Documentum evaluation process: <ul style="list-style-type: none"> – Gartner Study and Vendors Quadrant Rating – Vendor's Product Demo and Presentation to the Task Force – Gartner's Decision Driver consisted of: functionality, integration, technical architecture, cost, services, visibility and vision 	<ul style="list-style-type: none"> • However, no RFP process was executed for a DMS, so other DMS solutions were neither rigorously considered nor price-compared <ul style="list-style-type: none"> – Detailed requirements for DMS solution would have to be developed during the RFP process • According to the ITA, in 2008 the City purchased 150 Documentum Client Licenses for use by 5 City departments <ul style="list-style-type: none"> – However, the CAO and GSD are not using Documentum system today – There will be a significant learning curve for most CAO and GSD users
<ul style="list-style-type: none"> • Documentum could likely meet City's core DMS requirements, but would have to be customized to meet all detailed functional and system requirements, once developed, for: <ul style="list-style-type: none"> – Hosting GSD on our Enterprise Document Management system – Providing document management functionality (information and records control) per ISO 15489 – Leveraging ITA's knowledge of the base Documentum Enterprise solution 	<ul style="list-style-type: none"> • However, the City has not collected detailed DMS functional and infrastructure requirements at this time: <ul style="list-style-type: none"> – This would be done as part of an RFP process – City ITA does not have license upgrade costs available, since system requirements are as yet unknown • Leveraging the current Documentum solution for GSD could be time-consuming and expensive: <ul style="list-style-type: none"> – City ITA would insist on a small Documentum prototype for GSD users to try out – this would be necessary for success implementation – Modifications to the base Documentum Enterprise Solution, to meet GSD requirements, may negatively impact the performance of the base solution (which is already in place with satisfied City users)

3.11 Discussion of CGI Advantage Fixed Asset system

Table 3-6: Summary of the Advantages and Disadvantages of Leveraging CGI Advantage Fixed Asset System

Advantages of Leveraging CGI Advantage (instead of purchasing a new AMS)	Disadvantages of Leveraging CGI Advantage (instead of purchasing a new AMS)
<ul style="list-style-type: none"> • The City system of record is CGI Advantage Financials (FMS). CGI provides many integration advantages. • Financial modules in current operation are Budget Control, Chart of Accounts, Vendor Management, General Ledger, Accounts Payable, Accounts Receivable and Cost Accounting 	<ul style="list-style-type: none"> • There would be no RFP process for CGI Advantage, since the City already uses their solution. The City would have to take the time to understand its detailed AMS requirements and to pilot the solution • The Fixed Asset Management module has not yet been implemented at the City – this is a source of risk and time-constraint • The Fixed Asset Management module may require customization to meet GSD requirements, otherwise GSD would have to use “vanilla” system functionality (which may be insufficient) • Customization of the Fixed Asset Module might negatively impact the degree of integration with other CCI modules, thus minimizing the value of a highly-integrated product set.
<ul style="list-style-type: none"> • Strong integration with the City’s existing FMS. CGI Advantage claims: <ul style="list-style-type: none"> – Instantaneous Budget validation – Instantaneous Chart of Accounts validation – Instantaneous vendor validation in Purchase Order – Fully Integrated with Financials (Requisitions, Purchase Orders, Receipts, Invoices, Payments are all integrated and seamless) 	<ul style="list-style-type: none"> • The City should test the CGI Advantage claim that their Fixed Asset Module provides “instantaneous validation” (via supplier demo) <ul style="list-style-type: none"> – Should test in the CAO / GSD system environment – Provide detailed script for a supplier demo – Invite other suppliers to do the same scripted demo • If the City decides to leverage CGI Advantage’s asset management solution, then the City should still invest the time to understand the exact functionality of the CGI Advantage solution: <ul style="list-style-type: none"> – Do not settle for whatever asset management functionality the CGI Advantage system currently has – If needed functionality is currently lacking, then understand when / if CGI Advantage plans to have this functionality ready – Determine to what degree does CGI Advantage allow “bolt on” solutions from other suppliers
<ul style="list-style-type: none"> • CGI would likely meet City core functional and system requirements, but would have to be customized to meet all detailed functional and system requirements, once developed, for:, once developed, for: <ul style="list-style-type: none"> – Hosting GSD on our Enterprise Document Management system – Providing document management functionality per ISO 15489 (information and records control) 	<ul style="list-style-type: none"> • However, the CAO / GSD should take the time to understand CGI Advantage’s comprehensive asset management toolset in the City’s system environment: <ul style="list-style-type: none"> – Set up a dedicated “test bed” for CAO / GSD use – Develop a test dataset for use in the test bed – City should insist on a small AMS prototype for GSD to try out – time-consuming but very important in terms of user adoption and leveraging available functionality.

4 SUMMARY OF 2014 STRATEGIC REAL ESTATE PLAN

4.1 Overview

The City of Los Angeles performed a review of its asset management function in order to identify areas for improvement. PA has been working with the City Team specifically focusing on the way people, processes and systems are utilized to manage the City's real estate assets. As part of this work, PA has developed a 2014 Plan which should be used to support the City's transition to a more desirable future state of asset management. The complete 2014 Plan can be referenced in Appendix D of this document.

4.1.1 Vision

The City will manage its real estate assets to enhance the effective operation of City government and contribute to vibrant, healthy, and strong communities.

4.1.2 Mission

As previously mentioned earlier in this document, PA recommends four new Guiding Principles as the City's new mission statement.

1. Support City services and public access
2. Be environmentally responsible
3. Optimize economic and financial benefits
4. Be cost-effective

These new 2014 Guiding Principles are closely linked to the 14 original Guiding Principles in the 2009 Plan, as shown in Table 1-2 (provided in Section 1 of this document). Adopting these new Guiding Principles will continue the momentum from the 2009 Plan while also helping the City to focus on key opportunities during the next three to five years.

4.2 Space Optimization Opportunities

PA analyzed the capacity of 26 City-owned properties and in this next section provides space optimization option recommendations that could be used in order to absorb a number of staff relocating from non City-owned properties. The City continues to seek to relocate staff from leased to City-owned properties in order to "Optimize Economic and Financial Benefits" (Strategic Goal 2) and "Be Cost Effective" (Strategic Goal 3). In this way, the City hopes to continue to 1) reduce the City's reliance on more expensive leased space and 2) co-locate City services to promote ease of access.

Detailed data sets for the 13 leased and 26 City-owned properties are provided in Appendix D (Number and Description of In-Scope Buildings in the City of Los Angeles) for ease of reference. PA Consulting's recommended relocation scenarios are listed below in Table 4-1 and are described in more detail in Appendix D. It should be noted that these relocation scenarios are provided as options and would require additional financial analysis and approval of the MFC, City Council and relevant Council Committees.

Table 4-1: Potential Relocation Options for 13 Leased Properties during 2014 – 2020 (note 1)

Property	Lease Expiry	Region	Dept.	Work Spaces	Relocation Options	Relocate Earliest	Notes
1. 6640 Van Nuys	09/30/2012 (expired)	Valley	HCID	12	Marvin Braude or Van Nuys NCH	2014	Insufficient City-owned space currently available in LA Valley Region
2. 3583 Crenshaw (United One Bank)	10/24/2013 (expired)	Central LA	EWDD	4	Garland Bldg.	2014	Community presence – geographically desired. EWDD has its own budget – no impact on Gen'l Fund
3. 14400 Erwin	7/31/2014	Valley	Police	4	Keep staff in place	_____	Near Van Nuys Court-house. Keep police near the courthouse
4. 690 Knox	10/31/2014	South LA	HCID	35	Keep staff in place	_____	Geographically desired location. HCID has its own budget – no impact on General Fund
5. 312 S. Hill	12/31/2014	Central LA	City Attorney	36	Garland Bldg. (or Civic Center)	2014 (or 2019-20)	Must be close to Family Center / Criminal Hall; currently the City is currently working on a new 5-year lease
6. 2215 N. Broadway	10/04/2015	Central LA	HCID	28	El Sereno NCH - Constituent Ctr. (or Civic Center)	2014 (or 2019-20)	Would be possible to relocate to NCH at 5601 N. Figueroa if City rehabilitates this property
7. 3550 Wilshire Blvd (Paramount Plaza)	06/30/2016	Central LA	B&S, HCID, LAPDBS	115, 80, 22	201 Figueroa Plaza (or Civic Center)	2016 (or 2019-20)	The City will likely have 93,000 SF new space at the end of 2014 at 201 Figueroa Plaza
8. 14553 Delano	07/14/2016	Valley	Transportation	12	Marvin Braude (or Van Nuys NCH)	2016 (or 2016)	Property adjacent to Marvin Braude
9. 304 S. Broadway (Bradbury Building)	01/31/2017	Central LA	Police	291	201 Figueroa Plaza (or Civic Center)	2017 (or 2019-20)	The City will likely have 93,000 SF new space at the end of 2014 at 201 Figueroa Plaza

Table 4-1 continued on the next page

Table 4-1: Potential Relocation Options for 13 Leased Properties during 2014 – 2020 *

Property	Lease Expiry	Region	Dept.	Work Spaces	Relocation Options	Relocate Earliest	Notes
10. 4215 S. Crenshaw	09/30/2017	Central LA	Police (South Traffic Bureau)	164	Marlton Square (or any other new City-owned property)	TBD	Very difficult to move 164 police staff without building or acquiring new office space
11. 1200 W. 7th (Garland Building)	02/28/2019	Central LA	HCID, EWDD, Personnel	522, 148, 11	Civic Center	2019-20	Leave in place until 2019 - 20. The City will eventually move everyone out of the Garland Building
12. 9911 W. Pico	06/30/2019	Valley	Transportation	12	West LA NCH (or West LA Civic Center)	_____	The City is currently working on a new 5-year lease at 1575 Westwood Blvd. Santa Monica
13. 900 Third	None	Valley	City Attorney, Police	4, 5	Keep staff in place	_____	Satellite site of Marvin Braude

Note 1 – All potential relocation opportunities require consideration and approval by the MFC and/or City Council and should be requested under separate cover.

4.3 RE Asset Management Process

The 2014 Plan provides a set of high-level implementation plans for realizing the City's Real Estate Strategic goals and objectives.

4.3.1 Real Estate Asset Portfolio

Asset management requires accurate and complete data at the property level. A new real estate asset management model should help the City of Los Angeles clarify, define, and manage the contents of its real property portfolio, as well as to monitor and control its functional and financial performance.

The City of Los Angeles needs a comprehensive Portfolio Plan (which goes well beyond this 2014 Plan) to manage their property assets effectively and efficiently. The City should consider adopting key elements of private sector asset management practices such as:

- Site-based management, accounting, budgeting, financial planning and operations
- Relevant and regularly updated databases on physical, operational and financial characteristics of properties and supported by audits, intensive financial analyses, real estate appraisals, and accurate property accounting and financial planning
- Annual (or semi-annual) reviews and reporting at the property and aggregated levels
- Private market benchmarks, including market value of all owned and leased properties
- Financial tools and performance standards used in the real estate market (such as return on investment and capitalization rate calculations)
- Introduction of effective competition to leasing, sales, and sourcing of services and materials
- Culling of smaller properties through sale to improve portfolio management efficiency

The application of these portfolio management practices can be combined into four principal areas on the part of the City government:

- **Build and “cleanse” a property inventory database (PID).** The asset management process is dependent on accurate and thorough data. Some of this data, such as addresses and physical characteristics, will rarely change. Other data, such as financial performance and occupancy, will change frequently and should be updated periodically.
- **Assign a team (or create a small group) dedicated to portfolio management.** Responsibility for portfolio management should be centralized so that a department and individual officials in that department are accountable for the results of portfolio management processes.
- **Classify properties according to their intended functions.** The “hold or dispose” decision by the City for each particular property asset should depend substantially on why the property is needed and how it is used. Whether a building is used for a core function such as housing the city government itself, or for social functions such as community outreach, must influence further asset management decisions.
- **Implement asset and project management practices.** Once strategic goals have been established and an organization is formed, rigorous asset management practices (per ISO 55000) should be implemented. Asset managers must focus on achieving the goals set forth by not only monitoring daily and monthly property performance but also by planning and executing projects to achieve long-term asset management strategies. It is very important that the City establishes agreed-upon objectives, initiates and defines efforts (via project charters) to achieve those objectives, assigns teams, plans the projects, monitors progress toward project completion, and then turns over project outcomes and deliverables to management. Rigorous asset and project management practices ensure these ends.

4.3.2 Implementing the Real Estate Strategic Plan

PA Consulting recommends that the City launch a set of nine (9) projects to implement the 2014 Plan (see Table 4-2 below). These efforts would likely be driven by a combination of consultants and City staff. Should the City decide to take on these projects, assignment of lead agencies to each project should be left to the City’s discretion. Note that once these projects are completed, and the benefits realized, project teams would be dissolved and resources reassigned.

Each project team would be responsible for delivering multiple deliverables which contribute working parts to the overall 2014 Plan. Section 4.4 below profiles these initiatives.

Table 4-2: Recommended projects to deliver the 2014 Plan

RE Strategic Plan Components	Projects (note 1)	Project Objectives
1. Oversight and Deployment Management – see section 4.4	<ul style="list-style-type: none"> a. Asset Management Program Planning and Launch b. Property Inventory Database (PID) Development 	<ul style="list-style-type: none"> • Perform program planning for RE asset management projects during first phase • Establish asset management program oversight • Deploy a Project Management Organization (PMO) • Ensure all City-owned property is properly identified, characterized, and inventoried as defined by the new Asset Management Framework (recently proposed by AMSP) • “Cleanse” existing property records
2. Technology Management – see section 4.5	<ul style="list-style-type: none"> c. Manage Asset Management System (AMS) lifecycle d. Manage Document Management System (DMS) lifecycle 	<ul style="list-style-type: none"> • Establish Asset Management standards per ISO 55000: 2014 • Procure and implement the AMS via RFP process • Establish standards for Information and documentation – records management per ISO 15489 • Procure and implement a Document Management System (DMS) via RFP process • Test installed AMS and DMS systems • Ensure systems meets business, functional, and technical requirements • Maintain systems, ensure availability to users • Ensure data availability and data integrity • Resolve asset and data management problems using procured systems (i.e., avoid using spreadsheets and other “workarounds”)
3. Asset Data Management – see Section 4.6	<ul style="list-style-type: none"> e. Operating Statements for Properties f. Financial Analysis and Reporting for Properties, Portfolios, and Projects g. Asset Management Balanced Scorecard 	<ul style="list-style-type: none"> • Conduct a regular comparison and analysis of actual versus planned performance for each property, portfolio, and project • Perform deep financial analysis of each property to identify well- and poorly- performing properties • Create process for publishing quarterly asset management performance balanced scorecard • Maintain asset management balanced scorecard databases and processes
4. Portfolio Management – see Section 4.7	<ul style="list-style-type: none"> h. Portfolio Optimization i. Manage Portfolio of Surplus Property 	<ul style="list-style-type: none"> • Support portfolio management processes and services for Surplus Property • Implement portfolio optimization processes • Conduct periodic portfolio tracking and oversight reviews • Maintain and report portfolio metrics • Provide communications management • Actively participate in and monitor a portfolio oversight process • Facilitate consistent timelines and methods for all types of portfolios (e.g., Surplus Properties, Appraisals, and Space Optimization and Relocations)

Note 1: Teams are designed to call for part-time contributions from multiple City staff and possibly consultants

The remainder of this Section will briefly describe Projects a – i, which are proposed as a means of implementing the 2014 Plan. Appendix D provides a project profile for each of the projects listed in Table 4-2 above.

4.4 Oversight and Deployment Management

4.4.1 Project (a) – Asset Management Program Deployment Planning and Launch

Project (a) – Asset Management Program Deployment planning and launch

PA has drafted a high-level implementation roadmap for the AMS deployment (see Figure 3-4). To ensure that the roadmap is followed, the City must establish oversight for the Asset Management Program. The purpose of Deployment Planning and Launch is to lead initial efforts during Phase 1 of the Program, so that asset management program momentum can be built. It is axiomatic that organizational and operational change are difficult and do not happen quickly. In view of this, the Deployment Planning and Launch team should lay the groundwork for successful implementation of the new Real Estate Asset Management model, as well as driving the initial initiatives.

Strategy:

- The City has made significant progress on the 2009 Plan
- If the City assigns a small core team to drive the initial implementation of the 2014 Plan, then the projects in the plan will be more carefully and consistently planned and launched
- If the core team plans and launches the projects of the 2014 Plan, then project execution will be better, faster, and less expensive
- If project execution is better, faster and less expensive, then benefits will accrue more quickly
- If benefits accrue more quickly, then more value will be delivered at lower costs
- If more value is delivered at lower cost, then stakeholders will be happy
- If stakeholders are happy, then the program will gain momentum and be successful

Project Objectives:

- Initiate the projects called out in the 2014 Plan
- Define, organize, and plan the projects
- (Begin to) track and manage progress
- Build momentum

Key Tasks:

- Drive RFP process for procuring the AMS
- Drive RFP process for procuring the Document Management System (DMS)
- Develop an AMS program proposal and obtain approval
- Develop a DMS program proposal and obtain approval

- Establish program structure, define program framework (planning, tracking, practices, relationships, issues, communications)
- Develop charters and detailed plans for projects b – i. Create program work breakdown structure, preliminary project schedules, preliminary integrated schedule, refined estimates and commitments, optimized plan, risk management, and transition to management
- Track and manage: collect status, analyze variances, plan and take adaptive action, and report program status.

The Deployment planning core team will lead and coordinate Phase 1 Systems effort (see High-Level initiative roadmap” in the “Selection of the Asset Management System” report). The Deployment planning team can be a special task force or work group, but it should have a sufficiently high priority and status (that is, level in the organization) for making the overall program happen. This initial effort could be for six to 12 months or so, after which further decisions will be made.

Critical success factors for the Deployment planning team in enabling change in the Asset Management program:

- Importance – high level of perceived importance within the City organization
- Motivation – individual performance appraisal tied to performance on success of asset management projects
- Empowerment – encouraging involvement and ownership. Providing resources and training to the team members
- Visibility – establishing team metrics. Tracking and managing team performance.

4.4.2 Project (b) – Property Inventory Database (PID) Development

PA delivered an interim Property Inventory Database (PID), though the initial data collected is considered incomplete and in need of “cleansing”. Creation of a more comprehensive and accurate Property Inventory Database (PID), with robust information on all City real estate assets, is a crucial first step in implementing the AMS effectively. Thoroughly cleansed property data will allow the City to analyze real property assets and portfolios.

PA proposes a comprehensive examination of the inventory of assets within the Property Portfolio, which has amassed over many years. The City should assess the current physical and financial state of the portfolio, ownership and debt structure, and market-based “comparables” on similar properties.

Strategy:

- The City does not currently have a complete, accurate, integrated, and readily accessible collection of real property portfolio information AND successful AMS implementation will depend on cleaned real estate data
- Successful AMS implementation will depend on cleansed real estate data AND having a records management policy in place to define and assign records-related responsibilities to individuals
- The City can store real-estate data in MS Excel prior to implementing AMS and then easily migrate this data to AMS once it is procured and installed
- If the City updates and cleanses available real estate data in the Property Inventory Database (PID), then the City can prepare to implement AMS more effectively

- If the City collects data on the current physical and financial state (e.g., does appraisals) of City-owned properties, then the amount of deferred maintenance can be determined (and the City will be better prepared to implement AMS)
- If the City collects information on ownership and debt structure of City-owned properties, then the City will be better prepared to implement AMS
- If the City collects market-based “comparables” on similar properties (to City-owned properties), then the City will be better prepared to implement AMS

Project Objectives:

- Review and cleanse existing interim Property Inventory Database (PID)
- Develop a data acquisition and management plan (and execute it)
- Identify and acquire missing property data elements; upload to the PID
- Prepare PID data for migration to the AMS (once AMS has been procured and installed)
- Migrate the PID data to AMS

Key tasks:

- Review existing physical needs assessments, comparing to current replacement reserve levels, and best practice or agreed performance metrics
- Review existing property management contracts and benchmarking those contracts against market standards
- Review the current ownership and debt structure for each asset or group of assets, recommending optimal structures with particular emphasis on improving efficiencies, diminishing risk and enhancing cash flow or value
- Benchmark portfolio metrics (expense ratios, ROIs, etc.) against market standards

PA Consulting recommends the continued use of MS Excel as the information technology (IT) platform for inventorying properties until such time that the permanent AMS is procured and implemented.

4.5 Technology Management

The purpose of Technology Management is to avoid breakdowns in core areas of systems, which could limit the City’s ability to 1) manage its real estate assets effectively and 2) achieve its strategic goals.

4.5.1 Project (c) – Manage Asset Management System (AMS) Lifecycle

Once the PID is updated and cleansed, then acquiring and deploying AMS is a high priority since several proposed improvements hinge on the AMS information management capabilities. PA recommends the City consider pursuing certification in ISO 5500x: 2014 (asset management), including ISO 55000, ISO 55001, and ISO 55002. These standards were released in Jan. 2014 and are considered “best practice”.

Strategy:

- Management of the City’s real property assets in an environment of fiscal constraints has created multiple demands on existing CAO and GSD resources: to respond to often conflicting

requests, to adapt to changing priorities, to keep data records current and accurate, and to embrace market changes and best practices.

- Without an integrated AMS to maintain real property asset data, City employees from different departments cannot easily share real estate data, understand the inter-relationships among real properties, nor model the impact of an individual property decision on the overall property portfolio.)
- A number of low-risk, fully-functional, off-the-shelf AMS products are available on the market (see the “Selection of the City of Los Angeles Asset Management System” report)
- Other AMS products have been implemented at other municipalities
- The City should deploy a new, integrated AMS to avoid breakdowns in core areas of systems, processes, and human resources which are limiting the City’s ability to effectively manage its real estate assets and achieve its strategic goals
- The City should consider procuring an AMS during the next budgeting cycle

Project Objectives:

- Los Angeles City certification in ISO 5500x: 2014 (internationally recognized standard in asset management)
- Develop and use a prescribed sequence of events in managing AMS application lifecycle
- Establish processes for AMS oversight, that encompasses all of the decision making and project management for this application, extending from procurement through retirement of the application
- Establish processes for AMS development (includes upgrade and new versions). For most purchased applications, the development process reappears again several times in the application’s lifetime.
- Establish processes for AMS Operations, the work required to run and manage the application, which typically begins shortly before deployment, then runs continuously until the application is removed from service

Key tasks:

- The City should pursue certification in ISO 5500x: 2014. This may take 2 – 3 years.
- Participate in the Request for Proposal (RFP) process to select and procure the AMS software
- Work with software supplier to ensure effective package implementation
- Set up the AMS software support infrastructure, in cooperation with the selected software supplier
- Operate and maintain software support routines (if it is a stand-alone package)
- Manage disaster preparedness
- Train the AMS user community
- Resolve asset management problems using the system (that is, avoid system “workarounds”)
- Maintain metrics databases in AMS (for use in scorecards)

4.5.2 Project (d) – Manage Document Management System (DMS) lifecycle

Real estate document management processes at the City are not currently optimized. For example, existing property data files are mostly stored on shared drives or in a centralized, hardcopy library, but they are neither controlled in a rigorous manner nor summarized for easy searching and reading. At present it is time-consuming and difficult to impossible for City staff to review related documents across the portfolio – no abstracts or key words exist for most of the documents.

Other municipalities and many businesses have streamlined routine and necessary processes, such as digitizing document summaries (metadata) and creating electronic document “taxonomies”, to enable staff to access needed documents online and focus their efforts on higher-value and higher-reward activities.

The objective of this project is to provide guidance on a Document Management System (also known as EDRM – Electronic Document and Records Management). With such a system in place, asset managers at the City would have instant access to the range of needed documentation to do their jobs quickly and effectively,

A wealth of knowledge exists to provide impartial, detailed and practical advice during all the stages of a proposed or actual EDRM system implementation that is free from vendor bias and specific to the needs of the public sector. ISO 15489 summarizes some twenty years of experience of assisting public sector organizations to define their requirements for EDRM solutions and all the data gathered from some four months of fact finding.

Strategy:

- Records, including documents, contain information that is a valuable resource and an important organizational asset.
- A systematic approach to the management of records is essential for organizations to protect and preserve records as evidence of actions.
- A records management system results in a source of information about the organization's activities that can support subsequent activities and decisions, as well as ensuring accountability to present and future stakeholders.
- To improve decision-making and accountability, the City needs a Document Management System (DMS).
- ISO 15489 clearly lays out standard record policies and procedures that ensure appropriate attention and protection is given to all records, and that evidence and information they contain can be retrieved more efficiently and effectively, using standard practices, procedures, and tools.
- A number of low-risk, fully-functional, off-the-shelf DMS products are available on the market.
- The City should consider procuring a DMS during the next budgeting cycle.

Project objectives:

- The City should pursue certification in ISO 15489 (“Information and Documentation – Records Management”).
- All property documents are digitized, summarized (with an abstract), and available online.
- All users enjoy a “Google-like” experience finding documents on line: click in DMS, enter search words, and receive a prioritized list of (with links to) relevant documents.

- Implement a process by which new real estate related documentation is stored and accumulated in a central repository on a continuous basis.
- Data and documents are gathered, reviewed, an abstract is written, and the documents are scanned / digitized
- Digitized documents are hosted and indexed in a centralized, digitized, electronic document repository
- Key documents have digital abstracts and key words
- All documents are backed up online and secure
- Build an extensive database in which the information can be sliced and diced by region, property type, renewal date, leased vs. owned, or any other attribute

Key tasks (per ISO 15489)

- Step A: Preliminary investigation
- Step B: Analysis of business activity (note: this probably means “organization activity” in the case of the City)
- Step C: Identification of requirements for records
- Step D: Assessment of existing systems
- Step E: Identification of strategies for satisfying records requirements
- Step F: Design of a records system
- Step G: Implementation of a records system
- Step H: Post-implementation review

4.6 Data Management

4.6.1 Project (e) – Operating Statements for Properties

In the private sector, the goal of property owners is typically to maximize economic value; that is, returns on investment are optimized in relation to risk (for example, political, economic, and transaction risks). Business enterprises typically perform accounting and financial planning on a property-by-property basis. With this in mind, PA recommends that the City consider developing (and posting in DMS) standardized Operating Statements for each Property and for Portfolios of properties. These would enable a more rapid and consistent means to do trend analysis and make informed asset management decisions (e.g., level of justified investment, sell versus lease, etc.)

Strategy:

- The City does not consistently collect financial performance data on a property-by-property basis, nor does the City collect and present property data at the aggregated (portfolio) level.
- The purpose of operating statements is to evaluate the financial performance of each property (and portfolio of properties) and to identify poor performers for corrective actions.
- The City should create operating statements for all City-owned properties in a consistent format so that the actual results can be compared item-by-item with the budget and the results from previous years.

- With this information, the City is better positioned to make property and portfolio decisions using sound financial judgement based on accurate and complete financial data.

Project objectives:

- Develop a consistent and repeatable means to analyse and compare properties for purposes of decision-making (sell, invest, lease, etc.).
- Enable the City to perform trend analysis or make informed asset management decisions (e.g., level of justified investment, etc.).
- Track and manage month-to-month accounting of revenue and expenses at the property level
- Enable the City to spot and correct property-related problems early and effectively.

Key tasks:

- Create a prioritized list of City-owned properties for which Operating Statements for Properties will be developed.
- Systematically develop and generate standard operating statements for each City-owned and leased property (and include city-owned premises within a property).
- In the operating statements, include all relevant revenues and expenses for each property and, in particular, management costs.
- Use an Off-the-shelf Property software (or appropriate module(s) of the AMS to collect and store operational data and develop the operating statements.
- All operating statements should be posted in DMS for easy accessibility.

4.6.2 Project (f) – Financial Analysis and Reporting for Properties, Portfolios and Projects

Financial analyses of projects, portfolios, and projects should be consistently produced, closely monitored, and tightly controlled, in order to reap operational benefits and avoid financial losses and deterioration of properties. The primary means of achieving desired management objectives is to develop a baseline study, which includes an analysis of expected financial consequences, prior to engaging in any real estate investment or project; and then to measure ongoing performance against the baseline.

Strategy:

- Since the City owns properties which are not needed for its functions, it should have the benefit of knowing the net income (cash flow) from the properties.
- Properties that produce no income but incur expenses should have operating statements that show the details of the “loss” that is incurred or subsidized by the City.
- If the City retains such a property, then the property should produce a return on investment that is competitive – after considering risk factors – against other types of investments (such as bank deposits, State securities, etc.).
- If the property does not generate a sufficient return, then its performance should be scrutinized in order to see how the property performance could be improved.
- The City can improve property performance by either increasing income or decreasing expense.

- If improving the property does not result in higher returns, then the City should consider selling the property and re-investing the proceeds in another type of investment.

Project objectives:

- Train all asset management staff, and perhaps portfolio management staff, at the City to do a standard property financial performance report using discounted cash flow.
 - Before publishing property-by-property financial data, conduct an analysis of revenue, expenses, and net income (losses) based on aggregated (portfolio-level) data.
 - Conduct a feasibility study, which includes a projected analysis of expected financial consequences, prior to engaging in any sizable real estate investment or project.
 - Post all financial analyses and reports in DMS for easy accessibility.
- **Key tasks:**
 - Create a prioritized list of City-owned properties to undergo Financial Reporting and Analysis
 - Create a standard format for financial analyses, including discounted cash flow.
 - For income generating properties, ensure that operating income, or net cash flow, data is accurate and current.
 - Set up the financial analysis report so that the actual results can be compared item-by-item with the projected results.
 - Use ratios to compare financial performance, such as operating expense ratio and net income ratio.
 - To rectify deficient returns, an asset manager can either increase income or decrease expenses.

4.6.3 Project (g) – Asset Management Balanced Scorecard

Implementing an Asset Management Balanced Scorecard provides an effective means of linking the performance of City-owned and leased real estate to the City's Key Performance Indicators. In general, the Balanced Scorecard is a good means of developing, managing, and interpreting a system of on-going measures which take into account the four key stakeholder perspectives: 1) clients (stakeholders), 2) people (learning and growth), 3) internal business processes (e.g., Asset Management), and 4) financial.

Strategy:

The Balanced Scorecard uses metrics to determine whether there is a need to change the current strategy or to change an existing, documented process. The Balanced Scorecard uses metrics to focus management attention by providing quantitative justification for charting a path forward.

The City should identify a strategy in terms of desired outcomes, and then align performance measures to achieve those objectives. The choice of performance measures should be based on a clear understanding of the desired outcomes that the City wants to achieve with the 2014 Plan. The Balanced Scorecard should be deployed as a new management database that helps executives implement and gain feedback about their strategy.

Project Objectives:

- Promote appropriate behavior or results
- Establish a baseline for showing progress against Guiding Principles and Strategic Goals

- Establish a comprehensive but minimum set of powerful metrics to lend insight into the overall process or strategy (too few metrics may lead to the wrong conclusion, too many may obscure important cause-effect relationships)
- Keep metrics as simple as possible
- Base metrics on factors over which the group being measured has control
- Enable the City to take adaptive action based on performance outcomes

Key Tasks:

- Launch the Balanced Scorecard project
- Create measurement architecture
 - Select the appropriate organizational units to be covered by Balanced Scorecard metrics
 - Define preliminary set of Asset Management metrics
 - Identify linkages Asset Management metrics and organizational metrics
- Define strategic objectives (reference Asset Management Services deliverables)
- Select strategic measures (Key Performance Indicators)
 - Conduct interviews
 - Prepare and verify the scorecard(s)
- Conduct workshop to select Key Performance Indicators Build implementation Plan
 - Develop Implementation plan
 - Link staff performance to the Balanced Scorecard
 - Conduct workshops and finalize implementation plan
- Implement
 - Conduct quarterly reviews
 - Publish results
 - Take adaptive action

4.7 Portfolio Management

Portfolio management, of properties and projects, is an extremely important part of the 2014 Plan. The City should see the portfolio management process as developing a strategically correct portfolio to support the organization's vision and mission. Portfolio management is more than property or project selection, although this is part of it. It goes beyond simply developing a prioritized list of projects, though this is also a part of it. It is definitely more than strategizing and trying to arrive at the best set of projects to meet strategic needs, although strategy and strategic imperatives are certainly key components.

So what is portfolio management? A reasonable definition of portfolio management (in the context of real estate) is as follows:

- "A holistic and integrated real property asset management strategy aligning the management and performance of owned or leased property assets over time with the Strategic Plan, and the City's business objectives and service delivery requirements in a sustainable, financially feasible, and cost effective manner." (Kings County Real Asset Management Plan)

The principal aim of portfolio management is to ensure that: 1) the opportunity cost of financial resources tied up in land and buildings is minimized, 2) the funds expended on the City's real estate portfolio are efficiently and effectively directed to provide the greatest value to the City's strategies and service delivery requirements, and, 3) the highest and best use of the City's properties is achieved. A robust real property portfolio management plan, continuously reviewed, is a tool that can achieve the following objectives:

- Help to prioritize spending decisions
- Ensure property decisions are consistent with service requirements
- Identify opportunities for innovation
- Provide a context for evaluating capital projects
- Provide a basis for developing public-private partnerships
- Identify assets suitable for investment or disposal
- Identify opportunities to increase income generation or reduce expenditures

Another good way to understand the value of portfolio management is to realize the agonies that some organizations endure when they do not exercise proper portfolio management. Table 4-3 below summarizes what happens when organizations lack a portfolio management methodology.

Table 4-3: What Happens without Good Real Estate Portfolio Management?

No Portfolio Management means ...	Immediate Results	End Results
<ul style="list-style-type: none"> • A reluctance to sell unprofitable properties • Many properties languishing on a surplus property list • A lack of tactical focus 	<ul style="list-style-type: none"> • Too many properties to be reviewed and redispensed • People and resources spread thinly • Many properties in queue for review • Poor quality of property disposition 	<ul style="list-style-type: none"> • Increased turnaround times • Low service levels • High costs, low revenues • Low productivity • Higher failure rates • Dissatisfied stakeholders
<ul style="list-style-type: none"> • Weak decision points • Poor Hold / Sell / Lease decisions 	<ul style="list-style-type: none"> • Too many mediocre, low-value properties • Many tweaks, modifications, and false starts • Good properties are starved for funds (e.g., for maintenance) 	<ul style="list-style-type: none"> • Fewer profitable, well-maintained properties • Properties are sold very late, and opportunities are missed • Properties are abandoned • Rising City staff frustration
<ul style="list-style-type: none"> • No rigorous selection criteria • Selection based on emotion, politics 	<ul style="list-style-type: none"> • Wrong opportunities are selected • Good opportunities are passed over 	<ul style="list-style-type: none"> • Many failures • Misallocated resources • Frustrated stakeholders
<ul style="list-style-type: none"> • No strategic criteria for project selection 	<ul style="list-style-type: none"> • Property portfolio lacks strategic direction or positioning • Portfolio is not strategically aligned 	<ul style="list-style-type: none"> • Scattergun effort • Portfolio does not support the organization's strategy

4.7.1 Project (h) – Optimize Portfolio

Building upon the results from the interim Property Inventory Database developed in Project (b), the focus of Project (h) is to develop a strategy for optimizing the real estate portfolio in pursuit of the City's goals and objectives including, but not limited to, providing affordable housing, generating cash flow, leveraging public and private funding sources, and responsible property management.

Strategy:

- Property assets, both leased and owned, are important strategic resources that are expensive to build, maintain, and manage over time. They enable and support a broad range of the City's service delivery functions, with significant associated costs and levels of investment.
- In an environment of constrained resources, property investments should be clearly justified and correctly prioritized.
- To be most effective, the City's property management strategy must be holistic; that is, taking a life cycle approach considering total investment and property costs for either owned or leased properties to include acquisition, maintenance, operating and disposal costs.
- The strategy must be integrated; that is, oversight must be horizontal across all City agencies and departments as a department's surplus property may be utilized effectively by another department.
- If improving the property does not result in higher returns, then the City should consider selling the property and re-investing the proceeds in another type of investment.

Process objectives:

- Encourage Los Angeles City staff certification by PMI as Portfolio Management Professionals (PfMPSM).
- The purpose of the portfolio optimization process is to strategically evaluate the City's Asset Management Portfolio starting at the property level and ultimately as a portfolio and then to develop an action plan to improve the physical and financial performance of the portfolio.
- Portfolio optimization is conducted in two phases. The first phase deals principally with data collection and analysis at the property level (see Project (b) above – "Property Inventory Database (PID) development"). The focus of the second phase is the analysis of the overall portfolio focusing on strategy and recommendations for further action.
- Better portfolio transparency and inter-department coordination within the City.
- Better portfolio agility, due to availability of timely and accurate property data.
- Comprehensive portfolio coverage, consistent metrics tracking.
- Cost savings and additional revenues through optimized portfolio management.

Key Portfolio Optimization tasks:

- Construct the Property Inventory Database (see Project (b)).
- Recommend steps to maximize efficiencies and revenue at the property and the portfolio level. These include the identification of avenues for increasing revenue and diminishing risk from location, market, and financial perspectives.
- Develop a plan for adding and/or optimizing leverage to sub pools of assets through strategic planning of debt placement relying on current funding mechanisms as well as potential government and private sources of debt, tax credits, or alternate funding sources.
- Develop recommendations and steps for debt restructuring.
- Identify inventory ripe for disposition and strategize the exit of these assets (see Project (i)).

- Review current cash management and investment programs and recommending cash management and optimization strategies for cash proceeds, cash on hand and intradepartmental loan programs.
- Increase staff knowledge of Portfolio Management processes; encourage professional certification from the Project Management Institute (PMI) or equivalent organization.

4.7.2 Project (i) – Manage Surplus Properties

The disposal or surplus phase is initiated when a real estate asset is no longer needed, usually because it is not performing well. When a property has been declared “surplus”, then the City should dispose of its underutilized and non-performing assets in a timely manner, reducing lost opportunity costs and maximizing benefit. The CAO AMSP Unit has prepared a draft framework for disposition of the properties. This framework is currently under consideration by the City Council.

Strategy:

- Develop a managed surplus and disposal strategy, insuring that asset investments are effective and relevant to service requirements and that underutilized or nonperforming assets are disposed of in a manner consistent with code requirements and maximizing benefit to the City.
- Annually identify potential assets to be surplus. Potentially surplus assets are defined as: 1) an asset not required for the delivery of services, now or in the long-term; 2) an asset that has become uneconomical to maintain and/or operate; and, 3) an asset no longer suitable for ongoing core service delivery needs.
- Annually perform a strategic assessment of potential surplus assets. The assessment will determine: 1) whether there are other departments or agencies who could utilize the asset (a horizontal review); 2) whether there are net disposal benefits to the City either in financial terms or in other terms; 3) whether there are secondary service obligations which may dictate retention of the asset; and, 4) where a disposal of the asset can be carried out without adverse impacts on the physical environment.
- Annually identify opportunities for optimizing the return to the City and the community through asset disposals, i.e., affordable housing.
- Create, maintain, and annually update an ongoing property surplus and disposal plan, including disposal determinations, major milestones, schedules, and responsibilities, with the plan’s timeframe coincident with the interval of the City budget’s capital improvement plan.

Process objectives:

- Develop and implement a standard, repeatable process and policy for managing surplus properties.
- The process determines whether surplus real estate asset investments are effective and relevant to City service requirements.
- The process ensures that underutilized or nonperforming assets are disposed of in a manner consistent with code requirements and maximizing benefit to the City.
- The process is used to develop strategies to increasing property disposal's client base.
- The City should update and adopt the Non-Profit Lease Subsidy & Real Estate Sale Policy.
- Reduced short-term investment – Buildings placed on the surplus watch list will be subject to a reduced level of capital investment for rehabilitation or upgrade.

- Better safety and health compliance – Long-term capital investments would be limited to those building components that are a direct threat to health and safety or would result in failure of a building component.
- Maintenance of property value – Short-term capital investments would be used to maintain the asset to ensure there is no significant loss of property value.

The Surplus Property process involves multiple often complicated steps which include:

- Working with custodial agencies to determine whether or not properties are considered surplus to the City needs.
- Reaching out to other LA City and County departments to see whether there are any other uses for the subject property.
- Working with other City departments to determine whether surplus properties are viable for affordable housing.
- Marketing surplus properties.
- Negotiating purchase and sale agreements.
- Drafting legislative packages for property sales.
- Facilitating City Attorney, CAO, and GSD review of proposed transactions and legislative packages.

4.8 Asset Management Balanced Scorecard

The Balanced Scorecard, which is discussed as part of Project (g) in Section 4.6, is recognized as one of the world's leading management tools for enterprise performance management and strategy deployment. With the current economic challenges, the City should seriously consider designing and implementing a Balanced Scorecard (BSc) that helps rapidly and successfully implement a cost reduction and risk management strategy.

The Balanced Scorecard typically describes 4 perspectives of success: 1) Clients (customers), 2) People (learning and growth), 3) Asset Management (internal business processes), and 4) Financial. These 4 perspectives are represented below in Table 4-4 along with potential Desired Outcomes and Key Performance Indicators (KPIs). These suggested KPIs should be reviewed and verified by the City.

Table 4-4: Suggested Balanced Scorecard “Starter Set” for Asset Management

Four Perspectives of Success	Desired Outcomes (note 1)	Key Performance Indicators (KPIs)
1. Client (stakeholders)	<ul style="list-style-type: none"> • Support City services • Excellent real estate services • Ease of public access to services • Good client relations • Client / customer satisfaction • Expanded policy role 	<ul style="list-style-type: none"> • Client satisfaction with RE services • Tenant satisfaction with property management services • Volumes (e.g., revenues generated via leases of other channels) • Contribution to public policy
2. People (learning and growth)	<ul style="list-style-type: none"> • More productive real estate staff • Increased knowledge and competence • Increased employee confidence and experience • Increased staff competency in key areas – financial analysis, property appraisals, critical thinking, time management, leadership, public speaking, project management, portfolio management, etc. 	<ul style="list-style-type: none"> • Staff satisfaction survey • Number and type of staff certifications (compiled in a staff skills database) • RES Division workforce profile (total population by workforce status) • Training taken • RE-related certifications • HR plan objectives (such as learning investment per employee and number of employees with learning plans in place) • Participation in Employee training programs
3. Internal business processes (e.g., Asset Management)	<ul style="list-style-type: none"> • Be cost-effective • Effective management of Surplus Properties • Highly-valued real estate services • Public-private partnerships in service delivery • Effective technology management • Effective knowledge management 	<ul style="list-style-type: none"> • Increase in value of real property assets • Dollar value of deferred maintenance • Accommodation usage (rentable SF per FTE, cost per rentable SF, and cost per FTE) • Vacancy rate in City-owned office space • Capital reinvestment in City-owned space • Occupancy of surplus properties by non-profit organizations • Progress against sustainable development objectives • Project efficiency (time and budget) • Quality of data integrity • Number of joint ventures with businesses
4. Financial	<ul style="list-style-type: none"> • Optimize economic and financial benefits • Good stewardship of LA City funds • Timely, accurate financial reporting • Be environmentally responsible 	<ul style="list-style-type: none"> • Increased City revenues, decreased costs • Return on investment • Budget management (e.g., % over/under budget) • Accuracy of financial forecasting • Decrease in energy (power and water) consumption • Federal environmental grant awards • Number of City-owned buildings achieving LEED silver, gold, or platinum ratings

Note 1: Words in bold italics indicate 2014 Guiding Principles

4.9 Summary of 2014 Strategic Real Estate Plan Recommendations

The full Real Estate Plan (2014 Plan) provides detailed descriptions of each of the recommendations (see Appendix D). Table 4-5 below summarizes the recommendations in the 2014 Plan.

Table 4-5: Summary of Recommendations from the 2014 Strategic Real Estate Plan (2014 Plan)

High-level Recommendation	Description of Recommendation	References / Notes
<p>1. Align 2014 and 2009 Guiding Principles</p>	<ul style="list-style-type: none"> In the 2009 Strategic Real Estate Plan (the 2009 Plan), the City described its mission for real estate services in a set of 14 Guiding Principles In the 2014 Strategic Real Estate Plan (the 2014 Plan), PA Consulting (PA) linked these 14 Guiding Principles to a new, simplified set of 4 Guiding Principles 	<ul style="list-style-type: none"> See Section 1.2 of the 2014 Plan
<p>2. The City should consider a set of recommended relocation options for 13 properties</p>	<ul style="list-style-type: none"> The City sought to relocate staff from leased to City-owned properties in order to “Optimize Economic and Financial Benefits” (Strategic Goal 3) and “Be Cost Effective” (Strategic Goal 4) In this way, the City could continue to 1) reduce the City's reliance on expensive leased space and 2) co-locate City services to promote ease of access 	<ul style="list-style-type: none"> See Section 3.1 of the 2014 Plan
<p>3. The City should consider adopting key elements of private sector asset management practices</p>	<ul style="list-style-type: none"> Assign site-based management (a property manager of each City-owned property), accounting, budgeting, financial planning and operations. Regularly update databases on physical, operational and financial characteristics of properties and supported by audits, intensive financial analyses, real estate appraisals, and accurate property accounting and financial planning. Conduct annual (or semi-annual) reviews and reporting at the property and aggregated levels. Collect private market benchmarks, including market value of all owned and leased properties. Implement financial tools and performance standards used in the real estate market (such as return on investment and capitalization rate calculations). Introduce effective competition to leasing, sales, and sourcing of services and materials. Cull smaller properties through sale to improve portfolio management efficiency. 	<ul style="list-style-type: none"> See Section 4.1.1 of the 2014 Plan
<p>4. Establish standards for Information and Records Management per ISO 15489</p>	<ul style="list-style-type: none"> ISO 15489 is a well-known and well-accepted international standard, published in 2001, that provides a detailed blueprint for establishing information and records management. Establish standardized information and records management policies and procedures, per best practices. Establish a systematic approach to safeguarding the City's valuable information assets. 	<ul style="list-style-type: none"> See Section 4.1.2 of the 2014 Plan

Table 4-5 is continued on the next page

Table 4-5 (continued): Summary of Recommendations from the 2014 Strategic Real Estate Plan (2014 Plan)

High-level Recommendation	Description of Recommendation	References / Notes
<p>5. Establish standards for Asset Management per ISO 55000, 55001, and 55002</p>	<ul style="list-style-type: none"> • Leverage standard Asset Management Processes and Procedures as defined by the ISO • Leverage standard AMS Components • Leverage Asset Management Standards and Best Practices • Implement Asset Management (information) System (AMS) per best practices • Implement standard Asset Management Processes and Tools 	<ul style="list-style-type: none"> • See Section 4.1.3 of the 2014 Plan
<p>6. Establish Oversight for Asset Management Program</p>	<ul style="list-style-type: none"> • Deploy a PMO structure for the Asset Management Program • Establish strong change management • Create a set of detailed implementation plans for the nine (9) projects that, together, will help the City reach its “Future State” goals and achieve its mission for real estate services. • Each project should be implemented by an assigned project lead and project team. • Plan, manage, and track these nine projects using standard project and program management principles 	<ul style="list-style-type: none"> • See Sections 6.1 – 6.4 of the 2014 Plan
<p>7. Implement nine (9) projects called out in the 2014 Strategic Real Estate Plan</p>	<ul style="list-style-type: none"> • Deployment Management projects <ul style="list-style-type: none"> – Asset Management Process Planning and Launch (a) – Property Inventory Database (PID) development (b) • Technology Management projects <ul style="list-style-type: none"> – Manage Asset Management (information) System (AMS) Lifecycle (c) – Manage Document Management System (DMS) Lifecycle (d) • Data Management <ul style="list-style-type: none"> – Operating Statements for Properties (e) – Financial Analysis and Reporting for Properties, Portfolios, and Projects (f) – Asset Management Balanced Scorecard (g) • Asset Portfolio Management projects <ul style="list-style-type: none"> – Asset Portfolio Optimization (h) – Manage Portfolio of Surplus Property (i) 	<ul style="list-style-type: none"> • See Section 4.2 of the 2014 Plan

5 SUMMARY OF PORTFOLIO OPTIMIZATION

5.1 Overview

The City of Los Angeles performed a review of its asset management function in order to identify areas for improvement. PA has been working with the City Team specifically focusing on the way people, processes and systems are utilized to manage the City's real estate assets. As part of this work, PA has studied how Portfolio Optimization should be used to support the City's transition to a more desirable future state of asset management.

The City of Los Angeles maintains a broad and diverse portfolio of real estate. The City also functions as a property owner and occupier, a property developer, a landlord and a tenant. Understanding the full spectrum of real estate needs and real estate functions that the City of Los Angeles undertakes, an examination of the portfolio was undertaken. Given the nature of the assets and the function of those assets, the first task was to develop a framework for categorizing the real estate. Key properties – both owned and leased assets – were analyzed in detail from a market perspective with an eye on achieving the highest and best use for owned properties, or achieving market base terms for the leased assets. Lastly, the current practice of utilizing third party professional real estate providers to augment city staff resources was also evaluated.

Our examination is organized around the 4 assigned major tasks in the contract amendment number one:

- Task 1: Develop a framework to be used by the City to run portfolio optimization internally. This framework contains best practices; definition of property categories for specific portfolio optimization goals and criteria; and identification of critical data fields for the permanent AMS.
- Task 2: Complete a value optimization study for the City's "highest potential properties" and two leases where the City is a lessee
- Task 3: Develop multiple pro-forma templates to be used by the City internally to support portfolio optimization analyses in the future
- Task 4: Review the City's current brokerage practices and provide recommendations for changing the City's brokerage practices and procedures

PA's full report entitled "Asset Management Portfolio Optimization" can be found in Appendix E.

5.2 Asset Management Framework (Task 1)

5.2.1 Best Practices

Best practices in long-term portfolio optimization at the strategic level include:

1. Linking real estate asset performance to core City strategies, providing the highest and best use of City assets, and greatest value to the City, with both owned and leased properties
2. Acquiring new real property assets by well-planned and expeditious negotiation

3. Developing a complete and accurate collection of real property portfolio information through uniform electronic collection of pertinent physical and financial documents
4. Acquiring and maintaining sufficient portfolio information to assist in strategic, integrated decision-making, allowing for maximum utilization of property assets among all City agencies.

Best practices for the medium-term portfolio-level optimization are to ensure that:

1. The opportunity cost of financial resources tied up in land and buildings is minimized
2. The monies expended on the City's real estate portfolio are efficiently and effectively directed to provide the greatest value to the City's real estate strategies and service delivery requirements
3. The highest and best use of City properties is achieved.

Best practices for short-term portfolio-level optimization include:

1. Establishing measurement standards (metrics) for premises and building
2. Establishing rental rates via market analysis and lease negotiation
3. Managing leasing expenses
4. Negotiating concessions
5. Negotiating rights of use, occupancy and termination

5.2.2 City Real Estate Asset Categorization

C&W reviewed the inventory of the City's assets and categorized those assets into groupings that could be used to create goals, objectives and priorities for strategic asset management. These categories and sub-categories are as follows:

- City-owned – Municipal Use
 - Mission Critical
 - Office and Administrative Functions
- City-owned Assets - Non-essential / Excess / Surplus
 - Category 1 (No City occupancy or requirements)
 - Category 2 (Underutilized but currently house city functions)
 - Category 3 (Do not support City functions. May or may not house non-profit organizations)
 - Category 4 (No further City use)
- City Leased Asset

Within the major property categories, sub-categories were defined and for each, specific optimization goals or criteria were developed. The goal is achieving best economic use of the real estate while meeting policy goals and serving community use.

Within the City-Owned Assets – Office and Administrative Functions and Non-Essential/Excess major category, the City identified seven city-owned properties for detailed review and analysis. Within the City Lease Assets major category, four leases were selected for review and benchmarking against market standards. Collectively, these were labeled “high priority property analysis” or HPP. From this analysis, performed by C&W, the City will have a set of tools and templates from which to perform their own asset level optimization studies as priorities are established across the portfolio.

The City began developing an Asset Management Strategic Planning Framework (AMSP Framework) in a parallel process. C&W's Asset Categorization correlates to the work the City is doing internally, which generally centers on City-owned assets. The Asset Categorization also incorporates assets the City leases to third parties and leased assets where the City is a tenant, which is outside of the AMSP Framework.

The intention of the Asset Categorization is to provide a guideline for the City, particularly the CAO AMSP, to develop a strategy for the long-term asset management of its portfolio. Considerations include:

- Obtaining the best possible lease terms for space leased by the City
- Operating in the same way as a private sector real estate owner manages real estate Monetizing owned real estate that serves no continued city use
- Effectively managing City-owned real estate that will continue in the portfolio

5.2.3 Critical Data Fields for the Property Inventory Database

Table 5-1: Critical Data Fields for the Permanent RE Database (Basic, Site, and Building Information)

BASIC INFORMATION		
Common Property Name:	City of LA Property	
Address:	123 Main Street	
County:	Los Angeles	
Property Ownership Entity:	Community Redevelopment Agency	
Classification:	Category I: Mission Critical	
SITE INFORMATION		
Land Area:	Square Feet	Acres
Total Land Area SF:	18,174	0.42
BUILDING INFORMATION		
Type of Property:	office building	
Building Area		
Gross Building Area:	104,539 SF	
Net Rentable Area:	104,539 SF	
Land to Building Ratio:	0.17:1	
Number of Buildings:	1	
Number of Stories:	8	
Actual Age:	23 Years	
Quality:	Excellent	
Year Built:	1991	
Year Renovated:	2006	
Condition:	Excellent	
Parking:		
Number of Parking Spaces:	220	
Parking Ratio (per 1,000 sf):	2.10:1	
Parking Type:	a 5-level subterranean parking garage	

Table 5-2: Critical Data Fields for the Permanent RE Database (Municipal and Tenancy Information)

MUNICIPAL INFORMATION		
Assessment Information:		
Assessing Authority	Los Angeles County	
Assessor's Parcel Identification	5546-009-906 and -907	
Current Tax Year	2013/2014	
Taxable Assessment	\$5,398,000	
Tax Assessment per square foot	\$51.64	
Current Tax Liability	N/A	
Taxes per square foot	N/A	
Zoning Information:		
Current Zoning	C2-4D	
Is current use permitted?	Yes	
Current Use Compliance	Legal, non-complying (parking)	
TENANCY INFORMATION		
Occupancy %:	100.0%	
Occupied (SF):	104,539	
Current Number of Tenants:	3	
Vacant (SF):	0	
Number of Vacant Spaces:	0	
Base Rent Status:		
Attained Rent (Occupied Space):	\$30.91	
Market Rent:	\$27.00	
Attained Rent is:	Above Market	
Major Tenants:	Area:	Lease Expires
Major Tenant 1	0 SF	1/1/2011
Major Tenant 2	0 SF	1/1/2011
Major Tenant 3	0 SF	1/1/2011

5.3 Value Optimization Study for the City’s “highest potential properties” (Task 2)

5.3.1 City-Owned Properties

The purpose of these reviews was to take a market-based approach to evaluating the real estate, considering current market trends, investor approach, market positioning, opportunities and constraints from a land use perspective, locational considerations, and ultimately an examination of the asset's highest and best use. Market and financial analyses were conducted and extensive, individual reports were prepared for each city-owned HPP which are summarized in the following table:

Table 5-3: Summary of Value Optimization Options for City-owned HPP

Owned HPP	Short Description of City-Owned Asset	Findings and Recommendations
City Hall South	<ul style="list-style-type: none"> 1.44 acre site just south of City Hall, containing 103,686 square feet of office space in an eight-story building. 	<ul style="list-style-type: none"> The value of the land likely exceeds the value of the property as currently improved. C&W recommends that the future of the City Hall South site be analyzed in conjunction with the rest of the Civic Center buildings.
West LA Civic Center	<ul style="list-style-type: none"> 9.62 acre site located just west of the 405 Freeway This site is currently underutilized. 	<ul style="list-style-type: none"> The property has immediate potential (assuming unencumbered) for market-driven demand from office, retail, and/or multi-family residential uses. C&W recommends outright sale or Joint Venture to achieve highest proceeds to the City.
Pico House	<ul style="list-style-type: none"> Historic 3-story brick building on a 1.23-acre site Located within the El Pueblo Los Angeles Historic Monument. 	<ul style="list-style-type: none"> Renovation into hotel use is likely a break-even proposition for the City. Proposed development surrounding Union Station would likely increase potential economic returns.
El Pueblo Parking Lot #2	<ul style="list-style-type: none"> A 1.8 acre site located at 615 N. Main St. The site is the primary parking lot for El Pueblo. 	<ul style="list-style-type: none"> Redevelopment into a multifamily residential use with ground floor retail is market supported and would generate the highest proceeds if sold.
Westlake Theater	<ul style="list-style-type: none"> The 36,000 square foot, 1,949-seat Westlake Theater and adjacent 0.74 acre site (which is restricted to affordable housing). 	<ul style="list-style-type: none"> Comparable sales suggest that pricing for the Westlake Theater would range from \$75 - \$175 per square foot of building area. Investor response for the Westlake Theater likely would be weak to moderate given the condition of the building, historic-designation, and lack of parking. The City could enter into a long term ground lease for one or both sites to facilitate redevelopment.
Reseda Town Center	<ul style="list-style-type: none"> The C2 parcels of the two subject sites are currently improved with low-rise commercial buildings. 	<ul style="list-style-type: none"> An outright sale is the recommended strategy to achieve the greatest proceeds for the City. A likely buyer is the adjacent land owner.
Lincoln Heights Jail & 1903 Humboldt	<ul style="list-style-type: none"> LH Jail: Approximately 226,100 square foot building on a 210,800 square foot site. Designated as Los Angeles Historical Landmark The 1903 Humboldt site is approximately 79,033 square feet of vacant land (currently surface parking) 	<ul style="list-style-type: none"> Absent incentives or subsidy, the feasibility of redevelopment of the LH Jail is considered poor. C&W recommends further analysis of the jail structure and Humboldt site to define alternatives and develop more accurate cost estimates.

5.3.2 City-Leased Properties

The purpose of this review was to examine four leases involving the City as tenant and compare existing lease terms to market terms. The following leases were reviewed:

Table 5-4: Summary of Value Optimization Options for City-Leased HPP

Leased HPP	Short Description of City-Leased Asset	Findings and Recommendations
Bradbury Building	<ul style="list-style-type: none"> • 304 S. Broadway, Downtown Los Angeles • Premises includes 40,591 square feet of office space • Occupied primarily by the Internal Affairs Division (IAD) of the LAPD • Fully utilized / optimal 	<ul style="list-style-type: none"> • The City has favorable business and legal terms, including rent levels at or below market. • Leasing options: <ul style="list-style-type: none"> – Hold / Extend current lease - recommended – Negotiate new terms - available option but not recommended at this time – Termination clause - lease allows for early termination.
CalTrans Building	<ul style="list-style-type: none"> • 100 S. Main Street, Downtown Los Angeles • Premises includes 98,486 square feet of office space • Occupied primarily by the Department of Transportation • Fully utilized / optimal 	<ul style="list-style-type: none"> • The City has favorable business and legal terms, including rent levels at or below market. • Leasing options: <ul style="list-style-type: none"> – Hold / Extend current lease - recommended – Negotiate new terms - available option but not recommended at this time – Termination clause - lease allows for early termination.
620 Commercial	<ul style="list-style-type: none"> • 620 Commercial Street, Downtown Los Angeles • Premises includes 42,500 square feet of warehousing space • Occupied primarily by the LAPD Property Division • Fully utilized / optimal 	<ul style="list-style-type: none"> • The City has favorable business and legal terms, including rent levels at or below market. • Leasing options: <ul style="list-style-type: none"> – Hold / Extend current lease - recommended – Negotiate new terms - available option but not recommended at this time – Termination clause - lease allows for early termination.
Los Angeles Media Tech Center - Building 7 (Media Center)	<ul style="list-style-type: none"> • 2714 Media Center Drive, Los Angeles, CA 90039 • Office, warehouse, and receiving station for waste water samples and other related uses by Bureau of Sanitation. • Fully utilized / optimal 	<ul style="list-style-type: none"> • The City has favorable business and legal terms, including rent levels at or below market. • Leasing options: <ul style="list-style-type: none"> – Hold / Extend current lease - recommended – Negotiate new terms - available option but not recommended at this time – Termination clause - lease allows for early termination.

C&W determined that, among the leases we reviewed, the City had terms that reflected market terms for non-government occupancies, and in some instances, had more favorable terms.

5.4 Pro-Forma Templates for CAO to Support portfolio optimization analyses (Task 3)

C&W provided a set of pro-forma templates in MS Excel to the City. These templates provide City staff with a set of tools from which additional asset level optimization studies can be performed as priorities are established across the portfolio. See Appendix E for electronic copies of these pro-forma templates.

5.5 Review of Practice of Using Broker Representation (Task 4)

Best in class organizations whose primary purpose is not owning and managing real estate, routinely utilize outside professionals to provide real estate services. The City of Los Angeles is no exception.

C&W interviewed the City's in house real estate professionals to understand the current policies and practices around engaging the services of outside professionals – specifically broker representation in sale and lease transactions. Our research indicated that the process of solicitation (Request for Proposal) is typical of other governmental agencies; however, relative to the size of its portfolio, the sophistication of the Los Angeles market, and the complexity of the real estate owned and leased by the City, the City's use of outside representation is limited.

C&W and PA Consulting recommend that to best serve its real estate needs, the City move toward the practice of procuring lease service and representation on acquisition and dispositions. The recommended use of outside professional brokers will leverage in-house staff resources by switching their focus toward strategic asset management. There will also be an ongoing need for staff responsible for managing outside real estate providers. Two FTE positions are recommended.

Third party brokerage representation and the resulting relationships would also support the City's goal to optimize the performance of its portfolio through continuous access to real time market information and participants. These partnerships will serve as a valuable resource to the City and enable it to make informed real estate decisions as it functions as a landlord, a tenant and a property owner and developer.

5.6 Summary of Portfolio Optimization Recommendations

The full Portfolio Optimization report provides detailed descriptions of each of the recommendations (see Appendix E). Table 5-5 below summarizes the recommendations.

Table 5-5: Summary of Recommendations for Portfolio Optimization

High-level Recommendation	Description of Recommendation	References / Notes
<p>1. Lack of sufficient asset management data collection / analysis platform</p>	<ul style="list-style-type: none"> • Prioritize establishment of system consistent with PA recommendations • Commence with diligence / data collection (provided database fields) to populate 	<ul style="list-style-type: none"> • See Section 4.2 of the “2014 Strategic Real Estate Plan” report for descriptions of the asset management data collection / analysis platform
<p>2. Lack of strategic review or benchmarking for both City owned and leased facilities</p>	<ul style="list-style-type: none"> • Perform periodic (annual) valuations of high priority assets (surplus / economic development) using C&W prepared analysis tools or similar • Use third party providers to collect and evaluate market data periodically (bi-annually), i.e. CoStar, Reis, brokers. • Review leases in advance of key dates (i.e., notification) and evaluate terms using C&W prepared lease analysis tool or similar. • Make strategic decisions regarding leases both as landlord and tenant <ul style="list-style-type: none"> – Negotiate favorable terms for City when City is tenant – Negotiate market terms for tenant when City is landlord – Use third party brokerage representation 	<ul style="list-style-type: none"> • See Section 1 of the “Portfolio Optimization” report • See Section 4 of the “Portfolio Optimization” report
<p>3. Lack of strategic approach to city-owned, mission critical real estate</p>	<ul style="list-style-type: none"> • Strategically manage city-owned real estate that will continue in the portfolio • Operate improved assets consistent with market standards (OpEx), space utilization, vendors, etc. 	<ul style="list-style-type: none"> • See Section 2 of the “Portfolio Optimization” report
<p>4. Unclear strategy / timetable for action on HPP and similarly-situated assets</p>	<ul style="list-style-type: none"> • Develop a strategy around evaluated HPPs based on redevelopment potential/marketability/market conditions • Develop clear project charters and work plans • Assign an accountable project team to execute the projects • Establish timetable for action • Track and manage project progress 	<ul style="list-style-type: none"> • See Section 2.2 of the “Portfolio Optimization” report

6 GLOSSARY OF TERMS

6.1 Key Organizational Design Terminology

Readers of the 2014 Plan will notice a few key terms related to “Organizational Design.” Table 6-1 below defines some of these ease of reference.

Table 6-1: Key Terms Related to Organizational Design

Term	Definition
AMSP	<ul style="list-style-type: none">• CAO’s Asset Management Strategic Planning unit
CAO	<ul style="list-style-type: none">• City Administrative Officer of Los Angeles
CLA	<ul style="list-style-type: none">• Chief Legislative Analyst
EWDD	<ul style="list-style-type: none">• Economic and Workforce Development Department
GSD	<ul style="list-style-type: none">• General Services Department
MFC	<ul style="list-style-type: none">• Municipal Facilities Committee.
Site-based management	<ul style="list-style-type: none">• Where responsibilities are given to managers and maintenance staff at the property level to be accountable for operating budgets, tenant selection, work order distribution, and property appearance

6.2 Key Asset Management Terminology

Readers of the 2014 Plan will notice a few key terms related to “assets.” Table 6-2 below defines some of these for ease of reference.

Table 6-2: Key Terms Related to Assets

Term	Definition
Asset (within the City’s Real Estate group)	<ul style="list-style-type: none"> A property, contract, lease, or any other real-estate related entity that has potential or actual value to the City. Value can be tangible or intangible, financial or non-financial, and includes consideration of risks and liabilities.
Asset Lifecycle	<ul style="list-style-type: none"> The Asset Lifecycle covers the period from asset creation or acquisition of an asset to asset end-of-life, including the stages involved in the management of an asset. For real estate, the lifecycle stages might include Strategic Planning, operational assessment and planning, acquisition, operation and maintenance, and disposal.
Asset Management Process	<ul style="list-style-type: none"> The Asset Management Process involves the balancing of costs, opportunities and risks, against the desired performance of assets, to achieve the organizational objectives. The balancing is considered over different timeframes. Asset management processes enable an organization to examine the need for, and performance of, assets and asset systems at different levels. Additionally, it enables the application of analytical approaches towards managing an asset over the different stages of its lifecycle.
Asset Management Model	<ul style="list-style-type: none"> An Asset Management Model is a set of interrelated and interacting elements within an organization, whose function is to establish the asset management policy and asset management objectives, and the processes, needed to achieve those objectives. In this context, the elements of the asset management system should be viewed as a set of tools, including policies, plans, business processes and information systems, which are integrated to give assurance that the asset management activities will be delivered.
Asset Management System	<ul style="list-style-type: none"> An Asset Management System (AMS) is a computerized systems which the City should use to direct, coordinate and control asset management activities. It can provide improved risk control and gives assurance that the asset management objectives will be achieved on a consistent basis. AssetWorks is an example on an Asset Management System.
Asset Portfolio	<ul style="list-style-type: none"> Assets that are within the scope of an asset system. An Asset Portfolio is typically established and assigned for managerial control purposes. Portfolios of physical real estate (properties) might be defined or classified by asset type (e.g., City-owned, Leased, Surplus, etc.) or geographic locations (South Los Angeles, Valley, etc.). An asset system can encompass multiple asset portfolios.
Asset System	<ul style="list-style-type: none"> A set of assets that interact or are interrelated.
EDRM	<ul style="list-style-type: none"> Electronic Document and Records Management
FAR	<ul style="list-style-type: none"> Financial Reporting and Analysis
PID	<ul style="list-style-type: none"> Property Inventory Database

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