



CITY OF LOS ANGELES

Asset Management Services Study:

2009 Strategic Real Estate Plan Review



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EXECUTIVE SUMMARY

Objectives and Deliverables

In 2012, the City of Los Angeles (the City) issued a Request for Proposal (RFP) to assess the current performance of its Asset Management activities and more importantly to provide a road map for improving its operational performance and achieving key policy goals. PA Consulting (PA) and its subcontractors, KH Consulting Group (KH) and Cushman & Wakefield were selected to provide the requested services. To accomplish this task, PA focused its attention on identifying areas for enhancement or revision in the 2009 Real Estate Strategic Plan (“2009 R.E. Plan” or “The 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 reports¹, this report focuses on the review of the 2009 R.E. Plan. In particular, it includes:

1. An evaluation of the 2009 R.E. 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
2. A set of strategic planning recommendations to be considered for the development of the City’s next Real Estate Strategic Plan.

Evaluation of the 2009 R.E. Plan

The 2009 R.E. Plan consists of an update of the 1996 Office Facilities Master Plan. The execution of the 2009 R.E. Plan can be seen as a commendable if not a complete 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 R.E. Plan includes three 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

¹ The City’s Asset Management Study includes the following deliverables: 1) PA’s review of the 2009 R.E. Plan, 2) PA’s recommendations on the organization of the City’s Real Estate Division, 3) a report including real estate portfolio optimization goals and criteria, and 4) PA’s recommendations on the selection of an Asset Management System that will best meet the City’s needs.

- Improve cost-effectiveness by reducing leased space.

Despite the adverse economic environment, progress has been made against each of these objectives. Specifically, the City’s Leasing Account has been reduced by \$12.7 million (48%) from \$26.7 million in FY2004-05 to \$14 million in FY2013-14, and there has been considerable consolidation into the Figueroa Plaza complex.

PA’s key observations and associated recommendations pertaining to the 2009 R.E. Plan are summarized below, with the intent of building on the Plan’s successes and lessons learned.

Elements of the 2009 R.E. Plan	Observations	Recommendations
Guiding Principles	The 2009 R.E. plan includes 14 Guiding Principles underpinning the strategic vision. The Guiding Principles are helpful and significant progress was made in realizing 9 of 14 of these principles. However, they include a mix of visionary, tactical and proscriptive recommendations.	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	The City has continued to pursue the Civic Center concept but some components of the concept are not yet completed.	The City should continue its efforts to finalize the Civic Center Complex and the construction of a new office Building at Parker Center.
Civic Center Concept	The City has been consolidating downtown leases into the Figueroa Plaza building but has had some limitations placed on it by existing non-City tenants.	The City should explore alternative leasing options with the non-City tenants (for instance, propose a relocation in other City owned buildings).
Los Angeles Mall	Decisions pertaining to the future of the Los Angeles Mall, including upgrades, are on hold, per the Municipal Facilities Committee’s (MFC) direction. In addition, no action has been taken on the recommendations for developing Mall operating and capital improvement budgets.	PA and Cushman & Wakefield, in consultation with the office of the City Administrative Officer (CAO), have completed a 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 solutions mutually beneficial to the City and its residents. It further recommends the City to develop a new RFP which would specifically take into consideration entitlement, infrastructure, air space and parking. The optimization of the LA Mall use should also consider the synergies which may arise from potential new developments at the Parker Center site and City Hall South..
Cost-Effective Management of Assets	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 and keep some of the downtown leases.	The City should seek to comprehensively optimize all its costs.
Public Access	The City departments have not fully coordinated the decentralized delivery of services at the City’s locations beyond the City Hall, Civic Center, and Figueroa Plaza.	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**

The City lacks an approved policy which ensures that properties leased to non-profit organizations are consistently and cost-effectively managed.

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 described in section 2.2.6.

In addition, the detailed implementation sections of the 2009 R.E. Plan focused primarily on the Civic Center area and excludes 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 next Real Estate Strategic Plan should take a holistic approach to become “City-wide”, and consider all the properties which are owned or leased by the City, i.e., proprietary departments and council-controlled properties, as well as occupied and unoccupied space.

Strategic Planning Recommendations

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 City’s Real Estate Strategic Plan should provide the direction and guidance needed to shape what the Asset Management function is, what it does, and why it does it. In particular, the Strategic Plan should include 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 Strategic Plan should be considered as a living document which should be updated every 3 to 5 years.

Based on these considerations and in order to further expand the City’s focus on asset management, better recognize additional purposes of its assets, and clarify its priorities, PA recommends the City to 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 R.E. Plan and applying best practices. PA suggests this model be based on the following four primary goals:

- **Support City services** - 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
- **Optimize economic and financial benefits** – The City should consider how the properties can generate other benefits, such as generate job creation, economic growth, revenues, 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 are effective tools. In addition, the City should identify and prioritize properties with private use restrictions: all the properties identified as high potential should be reviewed by the CAO’s Strategic group with the help of the new entities in charge of economic development efforts, and a revenue optimization plan should be developed.
- **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

- **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.

To support the implementation of these four primary goals, PA has developed specific model strategies and recommendations, as detailed in the following table:

Goals	Model Strategies	Recommendations
Support City Services	The City should ensure its City services are located for ease of public access and enhanced department efficiency and delivery of services.	<p>In implementing this Model Strategy, the City should:</p> <ul style="list-style-type: none"> - Continue the policy of consolidating in the Civic Center, City workers who do not deal directly with the public - Use population levels and (where available) usage statistics to develop and implement a consistent policy for providing staffing at NCHs - Undertake an assessment of which services require staff to be located in NCH facilities and are most likely to be helpful to local residents - Where possible, use technology options and City facilities dedicated to other purposes (e.g., libraries, parks, police stations) for the provision of services that had been offered at NCHs.
Optimize Economic and financial benefits	The City should optimize the economic development benefits of its assets.	<p>The City should evaluate its portfolio and consider whether the highest and best use of a property potentially includes uses for economic development instead of, or in addition to, municipal uses. This evaluation will require a comprehensive review of candidate properties to ensure that the asset's economic development potential is at least as great as its operational value.</p> <p>In order to focus on the right properties and make the right decisions for economic development, the City will need accurate data (which does not currently exist) that provide grounding for decisions, and processes that encourage thoughtful discussions. A set of clear guidelines would also increase the City's ability to pursue a citywide policy for its properties, as contrasted with evaluating properties on a Council-district level.</p>
Be Cost-Effective	The City should optimize the financial benefits of its assets to generate revenues to off-set maintenance and operating costs.	<p>The City should assess the following revenue generation opportunities:</p> <ul style="list-style-type: none"> - Economic development initiatives, such as improving the Los Angeles Mall - Normal property operations, such as leasing space for cell phone towers or finding retail tenants to operate in a City building - Public-private partnerships or public-public partnerships.

“Surplus” properties – not identified as strong economic development opportunities – might be of use to non-profit organizations but only if they meet the Non-Profit Lease Subsidy and Real Property Sale Policy.

It is important that the Mayor and the City Council adopt the Non-Profit Lease Subsidy and Real Property Sale Policy, and that non-profit organizations be required to comply with this policy.

The City should ensure cost-effective management of its assets by evaluating lease versus buy options in the context of life-cycle analysis.

In implementing this Model Strategy, the City should develop the capacity to understand and project life-cycle costs for City properties, using that capacity to analyze recommendations about property disposition and acquisition, and inform decision-makers about the long-term commitments that are involved in portfolio management.

Be Environmentally responsible

The City should articulate clear, achievable areas where it can reduce energy consumption and support the City’s environmental efforts.

To efficiently implement this model strategy, the City should build upon what it has already accomplished to become a “greener” City and should purchase an Asset Management System with an Energy Management module.

Implementing the proposed Strategic Asset Management Model and developing the City’s next Real Estate Strategic Plan will require a robust strategic planning implementation framework. PA recommends this implementation framework to include the following elements and be supported by a set of “Implementation Strategies”:

Implementation Framework Elements	Implementation Strategies	Recommendations/Comments
Planning Assumptions	The City will need to develop planning assumptions for the Real Estate Strategic Plan in order to build and support an overall City Strategic Plan.	PA proposes a range of economic forecast assumptions and Strategic Asset Management Model assumptions in section 4.1 of this report.
Real estate strategic planning framework	The City should support the new Real Estate Strategic Plan by developing a comprehensive implementation effort.	PA recommends the City to implement the strategic planning framework developed in King County, Washington, which links the Real Estate Strategic Plan with a Real Estate Strategic Plan’s Implementation Plan, and a Real Estate Asset Management Plan.
Strategic planning organization structure	The City’s organizational structure should support the new strategic directions.	The City should leverage the recently established Asset Management Strategic Planning (AMSP) Unit within CAO to support its real estate strategic planning function.
	The City should dedicate staff members to work with elected officials when updating the plans	The City needs to find not only world-class technical and economic strategies for its assets but also needs to foster consensus on them within the City Council. This role

to generate consensus around new and modified short-, medium-, and long-term asset management goals and policies.

should be assigned to the CAO's AMSP Unit.

The CAO's new AMSP Unit should establish clear lines of responsibility and accountability for strategy development and implementation.

The CAO's new AMSP Unit, when staffed and under the purview of the MFC, should provide financial and management insight for the Real Estate Strategic Plan. In addition, the City must develop effective streamlining strategies to make the best use of the resources available which will involve the establishment of clear lines of responsibility and accountability.

The CAO's new AMSP Unit should establish a process for ensuring on-going relevance and updating of the Real Estate Strategic Plan and related tactical plans.

A standard strategic management effort includes:

- The development of supporting operational or tactical plans
- Monthly or quarterly reviews of progress against these plans
- Annual updates to both strategic and tactical plans
- Linkage of tactical plans to budgeting processes
- A complete strategic plan reassessment every 3 to 5 years.

**Strategic
planning
processes**

The CAO's new AMSP Unit should develop metrics, establish baseline data and targets, and monitor performance of asset management effectiveness.

PA recommends the implementation of a Balanced Scorecard for strategy data tracking. The data should cover at least cost, condition, and utilization. However, PA recommends the City to consider public access, economic development, revenue generation and environmental responsibility metrics as well.

The City should deploy an Asset Management System in order to streamline the City's real estate functions and ensure that real estate data is accurate and up-to-date.

PA has discussed the selection of the City's Asset Management System in detail in a separate report.

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1 PROJECT OBJECTIVES AND APPROACH

In 2012, the City of Los Angeles issued an RFP, and selected PA and its subcontractors, KH and Cushman & Wakefield to assess the current performance of its Asset Management activities and more importantly to provide a road map for improving its operational performance and achieving key policy goals. To accomplish this task, PA focused its attention on identifying areas for enhancement or revision in the 2009 R.E. 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 report focuses on the review of the 2009 R.E. Plan. In particular, it includes:

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

To accomplish the project objectives, PA interviewed key City stakeholders involved with real estate asset management, including at least one member of the Office of the Chief Legislative Analyst (CLA), CAO, Department of General Services (GSD), Department of Buildings and Safety (DBS), and the MFC. PA staff also reached out to all chiefs of staff representing the City Council districts in order to give them the opportunity to participate in the study.

The interviews focused on how well the overall strategic plan aligned with key functions in the City and whether high-level objectives were achieved since the publishing of the plan in 2009. City staff shared their opinion on how well the strategic plan balances major goals such as public access, public service, costs, social goals, and economic development. These key stakeholders gave their valuable opinions in terms of what could be improved, unaddressed areas, and what has worked well. They were able to point to key examples of asset management practices in the City.

PA found that the strategic plan has done well in terms of creating a vision for asset management for the City and that significant progress has been made against most of the goals outlined in the plan. However, various issues have affected the City's ability to implement other strategic decisions. These issues include: "red-tape" around asset management decisions as the various stakeholders involved in making these decisions are not aligned properly; and a lack of cohesion, making it difficult to make decisions that give proper consideration to all goals of the strategic plan. In addition, the 2009 strategic plan did not have an emphasis on economic development, which is now a focus area for the City.

The information gathered during these interviews allowed PA to analyze how the strategic plan could be updated to better meet the City's current and future policies, needs, and desires. Improvement opportunities include establishing measurable performance goals and reporting systems so that progress against these goals is transparent to all stakeholders and clarifying the responsibilities of parties involved in asset management decisions.

2 ASSESSMENT OF THE 2009 STRATEGIC REAL ESTATE PLAN

2.1 Overview of the 2009 Real Estate Plan

The 2009 R.E. Plan consists of an update of the 1996 Office Facilities Master Plan. The 2009 R.E. Plan was intended to “...be a broad guide to maximize the efficient use of the City’s physical assets as real estate decisions are made in the future,” and ultimately “...to organize the physical locations of City officials and departments for resulting synergy in City government to provide needed services to its citizens.”

The Plan lays out the City’s vision and strategy with regards to its real estate assets, provides guiding principles, specific recommendations for the City Hall/Civic Center, Figueroa Plaza and the Los Angeles Mall, and a list of key actions to support its implementation.

The 2009 R.E. Plan had three 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.

Despite the adverse economic environment, progress has been made against each of these objectives. Specifically, the City’s Leasing Account has been reduced by \$12.7 million (48%) from \$26.7 million in FY2004-05 to \$14 million in FY2013-14, and there has been considerable consolidation into the Figueroa Plaza complex.

Overall, the execution of the 2009 R.E. Plan can be seen as a commendable if not a complete attempt to improve asset management within the City during extremely difficult times. Although the Plan did not contain all the elements prescribed by best practice, it was 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.

However, the detailed implementation sections of the 2009 R.E. Plan focused primarily on the Civic Center area and excluded 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 next R.E. Plan should take a holistic approach to become “City-wide”, and consider all the properties which are owned or leased by the City, i.e., proprietary departments and council-controlled properties, as well as occupied and unoccupied space.

Note that in addition to the 2009 R.E. Plan, in 2012 and again in 2013, GSD issued Municipal Facilities Space Optimization Project Status Reports, providing information about the progress on the space consolidation initiatives listed in the 2009 R.E. Plan.

This section of the report identifies areas for improvement for the Plan and provides a detailed assessment of the progress the City has made in realizing the guiding principles and objectives included in the Plan.

2.2 Observations and Areas for Improvement

This section highlights PA's key observations pertaining to the 2009 R.E. Plan with the intent of building on the successes and lessons learned while implementing it. PA views the 2009 R.E. Plan as an important foundation for developing the next Real Estate Strategic Plan.

PA's observations are summarized in Table 2-1 and detailed in the following sections.

Table 2-1: PA's observations and recommendations on the 2009 R.E. Plan

Elements of the 2009 R.E. Plan	Observations	Recommendations
Guiding Principles	<p><u>Observation 1:</u> the 2009 R.E. plan includes 14 guiding principles underpinning the strategic vision. The Guiding Principles are helpful and significant progress was made in realizing 9 of 14 of these principles. However, they include a mix of visionary, tactical and proscriptive recommendations.</p>	<p>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.</p>
Civic Center Concept	<p><u>Observation 2:</u> the City has continued to pursue the Civic Center concept but some components of the concept are not yet completed.</p>	<p>The City should continue its efforts to finalize the Civic Center Complex and the construction of a new office Building at Parker Center.</p>
Los Angeles Mall	<p><u>Observation 3:</u> the City has been consolidating downtown leases into the Figueroa Plaza building but has had some limitations placed on it by existing non-City tenants.</p>	<p>The City should explore alternative leasing options with the non-City tenants (for instance, propose a relocation in other City owned buildings).</p>
Los Angeles Mall	<p><u>Observation 4:</u> decisions pertaining to the future of the Los Angeles Mall, including upgrades, are on hold, per MFC direction. In addition, no action has been taken on the recommendations for developing Mall operating and capital improvement budgets.</p>	<p>PA and Cushman & Wakefield, in consultation with the CAO, have completed a 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 solutions mutually beneficial to the City and its residents. It further recommends the City to develop a new RFP which would specifically take into consideration entitlement, infrastructure, air space and parking.</p> <p>The optimization of the LA Mall use should also consider the synergies which may arise from potential new developments at the Parker Center site and City Hall South.</p>

Cost-Effective Management of Assets	<u>Observation 5:</u> 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 and keep some of the downtown leases.	The City should seek to comprehensively optimize all its costs.
Public Access	<u>Observation 6:</u> the City departments have not fully coordinated the decentralized delivery of services at the City’s locations beyond the City Hall, Civic Center, and Figueroa Plaza.	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	<u>Observation 7:</u> the City lacks an approved policy which ensures that properties leased to non-profit organizations are consistently and cost-effectively managed.	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.

2.2.1 Guiding Principles

Observation 1 – The Guiding Principles are helpful but include a mix of visionary, tactical and proscriptive recommendations.

The 2009 R.E. Plan includes 14 Guiding Principles, incorporated from a 1996 Strategic Plan, which are listed in Table 2-2.

Table 2-2: City of Los Angeles, Guiding Principles for Asset Management (Source: 2009 R.E. Plan)

- Long-term office needs should be satisfied with long-term solutions; Owning property for long-term needs is always preferable to leasing; Taxpayers’ dollars should be used for equity investment
- Short-term office needs should be satisfied via flexible leases
- A balance should be maintained between owned and leased facilities so that the City can benefit as market conditions and space requirements change
- Every City facility should be a “Green Facility”
- Professional asset management must support the delivery of municipal services; decisions should be made in support of human resources, customer satisfaction and information technology
- Office functions should be consolidated in fewer locations, which leads to occupancy cost savings and operational efficiencies
- Departments should be clustered together by purpose or customer to improve operational effectiveness and service
- City governing bodies and their support departments should be located in close proximity to each other in the Civic Center
- Joint-use facilities (i.e. maintenance yards) are more cost effective and efficient than single purpose facilities
- Surplus property should be disposed of immediately (sell, reuse, land bank or develop)
- All retail revenue-generating opportunities using public and/or private sector partnerships should be maximized
- Non-Profits in City facilities must be profitable either through services or rent
- Facilities that are 50 years old should be replaced and/or revitalized
- A comprehensive computer database is essential for the management of real estate assets

The Guiding Principles have the following limitations:

- **The Guiding Principles vary from the visionary to the practical.** They range from visionary (“Every City facility should be a ‘Green Facility’”) to practical (“Short-term office needs should be satisfied via flexible leases”) to proscriptive (“Surplus property should be disposed of immediately”)
- **The Guiding Principles lack sufficient details needed during implementation and assessment of progress made.** For example:
 - How should the City decide which departments should be clustered?
 - What does it mean to “maintain a balance” between owned and leased property?
- **The Guiding Principles are missing some important principles.** They do not promote such fundamental concepts of managing total lifecycle costs of real estate assets, locally delivered services, and public-private or public-public partnerships
- **They are numerous and hard to recall.** The large number of Guiding Principles makes them difficult to recall and use as effective decision-making tools. Moreover, applying them can lead to potentially conflicting decisions.

PA recommends that these principles be reviewed and simplified in order to address these limitations. Furthermore, the 2009 R.E. plan does not emphasize the fact that the implementation of these 14 Guiding Principles should be supported by a streamlined organization of the Real Estate Division, with appropriate processes and systems in place.

2.2.2 Civic Center Concept

Observation 2 – The City has continued to pursue the Civic Center concept but some components of the concept are not yet completed.

City Hall Complex

City Hall and City Hall East largely serve the populations described in the 2009 R.E. Plan. The 2009 R.E. Plan calls for establishing the Civic Center as the exclusive center of government by the Mayor, City Council, and elected officials, and those departments that support the governing function. The Plan envisioned construction of a new Civic Center office building and included recommendations to demolish City Hall South and create a green space with a fountain and plaza to the south of City Hall East by 2019. Although the City has continued to pursue the City Hall Complex, limited progress has been made regarding plans to demolish City Hall South.

New Office Building at Parker Center

Although the new office building at Parker Center is not completed, the City has made substantial progress in this area and in September 2013, the City prepared and released a draft Environmental Impact Report (EIR), which includes, as an option, the construction of a new civic center building at the Parker Center site. Compared to the 2009 R.E. Plan, which provided two options of a 500,000 sq ft building to replace City Hall South or a 1 million sq ft building to house Public Works Bureaus and replace City Hall South, the recently released EIR calls for the City to consider three options:

- Option 1: Adaptive re-use and seismic retrofit of Parker Center with 319,048 sq ft; 137 parking
- Option 2: Partial demolition and renovation of Parker Center with total 522,255 sq ft; 328 parking
- Option 3: Full demolition of Parker Center and construction of a new 753,730 sq ft; 1,173 parking

The City should continue its efforts to finalize the Civic Center Complex and leverage the progress which has been made with regards to the development of the new office Building at Parker Center.

Furthermore, the City should take a holistic approach when assessing the Civic Center area. It should not only be viewed as a grouping of government facilities but as an opportunity for economic development, and potentially as a touristic destination. The City could leverage the City Master Plan in order to get directions on how to revitalize this area of Los Angeles.

Observation 3 – The City has been consolidating downtown leases into the Figueroa Plaza building but has had some limitations placed on it by existing non-City tenants.

The Plan calls for the Figueroa Plaza complex, acquired in 2007, to be filled with City staff from two distinct public service groups: development services (construction industry services) and social services. Furthermore, the 2011 Development Reform project² developed the concept of seamless Development Services; co-location of involved functions would assist in making the delivery of these services more seamless. The Department of Building & Safety is the anchor tenant at Figueroa Plaza in development services; other departments (e.g., Bureau of Engineering (BOE), Bureau of Streets (BOS), Department of City Planning (DCP), and Fire Department) assign staff to facilitate case management and one-stop access for the public seeking such services.

With the recent adoption of a consolidated department focused on development services and City planning, co-location of staff at Figueroa Plaza will be even more germane, beneficial, and essential. Such consolidation will be particularly important, although challenging, with the desired move of DCP staff from City Hall to Figueroa Plaza.

In addition, the City has consolidated many downtown leases into the Figueroa Plaza building, and continues to move in that direction.

Two of the largest non-City tenants, however, continue to occupy the space. After the adoption of the 2009 R.E. Plan, the largest private tenant was granted the unilateral right to extend its lease through 2023³, and the County will not vacate until late 2014 or early 2015. The City should explore alternative leasing options with these tenants (for instance, propose a relocation in other City owned buildings).

2.2.3 Los Angeles Mall

Observation 4 – Decisions pertaining to the future of the Mall, including upgrades, are on hold per MFC direction.

The 2009 R.E. Plan refers to a Grubb & Ellis study, which at the time had not yet been completed. The study assessed ways that the Los Angeles Mall can be maintained as an important City asset. The 2009 R.E. Plan also contained recommendations on the preparation of operating and capital improvement budgets and improving the Mall's operation and profitability.

The Grubb & Ellis study was completed, and included a range of development options with associated investment assumptions. No action was taken on those recommendations. In the interim, GSD has continued to identify tenants and propose leases.

The MFC has put a hold on large new tenant leases until the City has determined whether the Mall is best managed as an economic development property. In addition, no action has been taken on the recommendations for developing Mall operating and capital improvement budgets.

PA and Cushman & Wakefield, in consultation with the CAO, have completed a 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 solutions mutually beneficial to the City and its residents. It further recommends the City to develop a new RFP which would specifically take into consideration entitlement, infrastructure, air space and parking.

² The Development Reform Strategic Plan, prepared by KH Consulting Group, is available on the Mayor's website: http://www.losangelesworks.org/resources/uploads/Dev_Reform_Strategic_Plan_Vol_1.pdf

³ While the largest private tenant was granted the right to extend the lease to 2023, it was based on an option held by the tenant before the City acquired Figueroa Plaza.

The optimization of the LA Mall use should also consider the synergies which may arise from potential new developments at the Parker Center site and City Hall South.

Detailed recommendations on how the City should develop this RFP are contained in a separate PA report

2.2.4 Cost-Effective Management of Assets

Observation 5 – Current emphasis on reducing number and cost of downtown leases may not optimize cost-effectiveness and benefits in the long term.

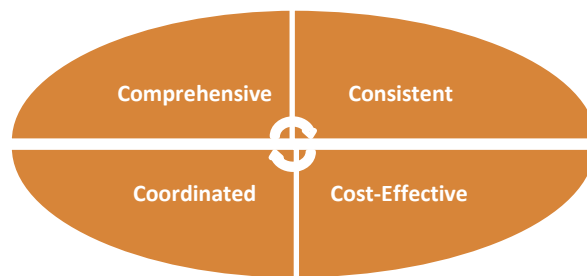
The goals and accomplishments related to cost laid out in the 2009 and 2012 planning efforts were framed in terms of reducing the number and costs of downtown leases, along with the resulting impact on the General Fund and associated other funds. The current focus on reducing lease expenses rather than on comprehensively optimizing all costs and benefits increases the risk of trading short-term gains (which may not have considered all related costs and benefits) for long-term problems. For example, it may be in the City’s best economic interest to lease out some of its own assets to non-City tenants and keep some of the downtown leases. Prudent use of technology, improved real estate asset data management and greater use of outside subject matter experts should all be key areas of the City’s cost reduction strategy going forward.

2.2.5 Public Access

Observation 6 – The City should apply the 4 Cs – comprehensive, consistent, coordinated and cost-effective –when analyzing the delivery of decentralized services.

The City departments have not fully coordinated the decentralized delivery of services at the City’s locations beyond the City Hall, Civic Center, and Figueroa Plaza. The City should apply the 4Cs when analyzing decentralization versus centralization options:

- Comprehensive: all City services should be easily accessible by all the residents of Los Angeles
- Consistent: the coverage and quality of service should be consistent across the City
- Coordinated: any changes to the delivery of City services should be implemented simultaneously across Los Angeles
- Cost-effective: City services should be provided to the residents of Los Angeles in an effective and efficient manner, and at the lowest cost possible for the City



1996 Neighborhood City Hall Policy

The City established an NCH policy in 1996, expanding local delivery of services to multiple areas as part of an ongoing “...ambitious effort to decentralize government and improve the delivery of City services to the residents.” The NCH policy, described in the 2009 R.E. Plan, requires soliciting input regarding

community needs, identifying an appropriate site, soliciting funds through the budget process, and gathering commitments for staffing.

Current NCH or Service Center Facilities

In 2009, the 14 NCHs included:

Table 2-3: List of NCHs

NCH	Council District
Boyle Heights NCH (2130 E. 1st. Street)	14
Eagle Rock NCH (2035 Colorado Boulevard)	14
El Sereno Constituent Service Center (4927 E. Huntington Drive North)	14
Hollywood NCH (6501 Fountain Avenue)	4
Mark Ridley-Thomas NCH (8475 S. Vermont Avenue)	8
Marvin Braude NCH (6262 Van Nuys Boulevard)	6
San Pedro NCH (638 Beacon Street)	15
Sunland/Tujunga NCH (7747 Foothill Boulevard)	7
Van Nuys NCH (14410 Sylvan Street)	6
Watts NCH (1513 E. 103rd. Street)	15
West LA NCH (1645 S. Corinth Avenue)	11
West Valley NCH (19040 Vanowen Street)	3
Westchester NCH (7166 W. Manchester Avenue)	11
Wilmington/Harbor Gateway NCH	15

In addition, the City located “Major Office Facilities” outside of the City Center at Council District 10 on Western and in the Sawtelle Building. Two new NCHs have been built since 2009: one in Council District 9 on Central Avenue, and one in Pacoima on Van Nuys Boulevard. Note that one additional NCH in District 1 (on North Figueroa) was planned in 2009.

City Departmental Presence at NCH and Service Center

Staffing and budget reductions during the downturn forced the closure of services at many of the NCHs and some departments have had difficulties in ensuring adequate coverage of services at different localities. In addition, data about current or anticipated usage to guide decision-making about what services would be most useful at each NCH is inconsistent. As a result, services offered at the NCHs vary district to district.

It should be noted, however, that some Council Districts have responded to the City staffing reductions and unplanned vacancies at NCHs by partnering with local non-profits to provide service and utilize the vacant spaces.

The Office of the CAO has recently begun an inventory to determine the impact on services offered at the NCH and Service Center sites. Ten City departments responded to the CAO’s survey:

- Bureau of Contract Administration
- Bureau of Engineering
- Bureau of Street Services
- Economic Workforce Development Department (EWDD)
- DCP
- Department of Transportation (DOT)
- Finance Department
- Fire Department
- Housing Department
- Neighborhood Empowerment

Table 2-4 presents the survey results, distinguishing between City departments that have a full-time presence versus occasional or part-time presence at the NCH/Service Center.

Table 2-4: City survey regarding services offered by NCH or Service Center

NCH/Service Center	Departments With Full-Time Presence	Departments with Occasional or Part-Time Presence
Boyle Heights NCH (2130 E. 1st. Street)	EWDD Street Services	Department of Aging
CD#12 - Devonshire		DBS (hours unknown; maybe full-time)
Eagle Rock NCH (2035 Colorado Boulevard)	NA	NA
El Sereno Constituent Service Center (4927 E. Huntington Drive North)	NA	NA
Hollywood NCH (6501 Fountain Avenue)	DOT Finance	
Mark Ridley-Thomas NCH (8475 S. Vermont Avenue)	EWDD DBS	Housing (Tues/Thurs 9-4) Neighborhood Empowerment Planning (occasional APC meeting)
Marvin Braude NCH (6262 Van Nuys Boulevard)	Contract Administration DBS DOT	Fire (hours unknown; may be full-time)
San Pedro NCH (638 Beacon Street, San Pedro, CA 90731)	Contract Administration Finance DOT BOE DBS	Fire (hours unknown; may be full-time) Neighborhood Empowerment
Sunland/Tujunga NCH (7747 Foothill Boulevard)	EWDD	
Van Nuys NCH (14410 Sylvan Street, Van Nuys, CA 91401)	CDD BOE Street Services Neighborhood Empowerment	
Watts NCH (1513 E. 103rd. Street)	NA	NA

West LA NCH (1645 S. Corinth Avenue)	NA	NA
West Valley NCH (19040 Vanowen Street)	Contract Administration DOT Street Services	
Westchester NCH (7166 W. Manchester Avenue)	DOT	Fire (hours unknown; may be full-time)
Western	NA	NA
Wilmington/Harbor Gateway NCH	DOT	
WLA Neighborhood City Hall 1828 Sawtelle Blvd. Los Angeles, CA 90025	Contract Administration BOE DOT Finance	
Other Locations		
305 E 1st Street	EWDD	
4301 Central	EWDD	
3683 Crenshaw	EWDD	

NA = No services provided

NCH Policy Update Needed

A single NCH policy should be revisited, revised and adopted. The City has many different options for decentralizing service delivery that do not require the construction and staffing of physical buildings. Other municipalities use technology and existing facilities – libraries, park buildings, or police stations – to house computers and kiosks that can provide access to many services. Such approaches often require little or no additional staff.

The revised NCH Policy should ensure that:

- The public needs are addressed i.e., that the relevant City Departments are present in each NCH
- The NCHs are appropriately staffed to meet the demand and that technology (computers and kiosks) and existing facilities (such as libraries, park buildings, or police stations) are used to provide access to City services, where feasible
- The quality of service is consistent across the NCHs
- The running costs of each NCH is in line with the quantity and quality of services provided to the community
- NCHs are appropriately located across the City and no area is favored over another
- The operations of each NCH are audited on a regular basis
- Usage data for each NCH is gathered on a regular basis in order to analyze current and anticipated usage.

2.2.6 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.

The City has a long-standing practice of partnering with non-profit organizations to provide an array of community services that benefit citizens which the City may not be equipped or able to provide. In

exchange for these beneficial community services, and sometimes because these organizations are unable to pay market rates, the City has offered below market rates⁴ to over one hundred non-profit organizations in recent years.

Such practices may cause significant harm to the City if not supported by the adoption and implementation of the pending April 2010 Non-Profit Lease Subsidy and Real Property Sale Policy. For instance, the City has not been able to monitor lessee maintenance performance for most of the agencies and, thus, does not have a full accounting of the condition and level of maintenance of the facilities in which these services are provided. Along with reduced personnel resources, this approach has led to material deterioration in the condition of the assets. The long-term impact of failure to maintain the facilities may be considerable. In order to prevent this on a going-forward basis, it is important that the City Council adopt the Non-Profit Lease Subsidy and Real Property Sale Policy, and that non-profit organizations be required to comply with this policy. Furthermore, the City should provide funding for capital repairs that are not the responsibility of tenants at these facilities.

Leases of City property to non-profit organizations should require those entities to maintain the properties. Currently, the City lacks the resources to conduct regular audits to verify that properties are being properly maintained. The City has had instances where it had to expend resources to bring properties to standard after the premises were vacated. The current draft Non-Profit Organization Leasing Policy is silent on that issue.

In addition, although GSD staff and the MFC use the draft Non-Profit Organization Leasing Policy as guidance when evaluating proposed leases, the lack of an approved policy hampers the City's ability to ensure consistency in its leasing decisions.

PA has reviewed a draft of the Non-Profit Lease Subsidy and Real Property Sale Policy and recommends the following improvements:

- The Mayor and the City Council should adopt and approve the Policy
- The City should establish and formalize a lease contract for each non-profit agency including a determination of the community benefit that the agency has sufficient resources to pay the utilities, maintenance, custodial, security and other customary costs related to use of the space
- Non-profit agencies should be audited on a regular basis by the City Controller to ensure that:
 - The agency continues to provide the minimum level of Public Benefit (as specified in Attachment II of the policy)
 - The agency is in good standing with the State and IRS
- The City should require the equivalent of a security deposit or performance bond in order to cover unpaid repair and maintenance costs.

2.3 Economic Context and Progress to Date on the 2009 R.E. Plan

The whole City faced significant challenges in executing the 2009 R.E. Plan. The 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

⁴ Sometimes for free or for a symbolic cost of only \$1/year.

- The City was fighting to keep essential services. Developing a budget to improve office space efficiency or reduced energy consumption was not an immediate priority.

Given these financial constraints, the City nevertheless made some progress in successfully implementing elements of the Plan. The City:

- Reduced its leased expenditures by 17 percent with a plan to reduce them by another 30 percent
- Made considerable progress with regards to the consolidation into the Figueroa Plaza complex as well as the Civic Center buildings
- Reduced City lease costs expenses by re-negotiating high costs leases to lower amounts
- 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 \$46M in revenues since 2009 by disposing of surplus properties
- Transitioned to a “greener” real estate portfolio, as discussed in details in section 3.2 (see Model Strategy 6).

In addition, the City made significant progress in realizing the guiding principles outlined in the 2009 R.E. Plan. The current progress made in realizing the Guiding Principles is displayed in the charts below and is graded on a scale of “1” (No Progress Made) to “5” (Significant Progress Made). The chart with the red header relates to the “City Efficiency” and “Public Access” goals, the charts with the black headers relate to the “Cost Effectiveness” goal while the chart with the green header relates to the “Environmentally Responsible” goal. Overall, progress has been made against 9 of these 14 guiding principles.

Table 2-5: PA's assessment on progress to date against the 2009 R.E. Plan guiding principles

City Efficiency and Public Access	Progress					Comments	
	No Progress Made	1	2	3	4		5
1. Departments should be clustered together by purpose or customer to improve operational effectiveness and service.					▲		<ul style="list-style-type: none"> • Significant progress has been made through the establishment of two clusters at Figueroa Plaza. • Not all departmental moves have taken place, however, due to the continuance of third-party leases at Figueroa Plaza .
2. City governing bodies and their support departments should be located in close proximity to each other in the Civic Center.			▲				<ul style="list-style-type: none"> • Progress has been made to realize this Guiding Principle. • How and whether construction of a new facility at Parker Center fits in remains to be resolved.
3. Office functions should be consolidated in fewer locations, which leads to occupancy cost savings and operational efficiencies.			▲				<ul style="list-style-type: none"> • There is progress in consolidation. • Capacity to analyze the cost implications is limited, however.

Cost-Effectiveness	Progress					Comments
	No Progress Made	Progress			Significant Progress Made	
	1	2	3	4	5	
4. Long-term office needs should be satisfied with long-term solutions. Owning property for long-term needs is always preferable to leasing. Taxpayers' dollars should be used for equity investment.				▶		<ul style="list-style-type: none"> The City has reduced its leased properties and expenditures by 17% and has a plan to reduce them by another 30%. Plans to transfer staff from leased facilities has been slowed by a lease extension at Figueroa Plaza, and by financial pressures affecting plans to build or purchase buildings.
5. A balance should be maintained between owned and leased facilities so that the City can benefit as market conditions and space requirements change.		▶				<ul style="list-style-type: none"> There is no provision for regular reviews and updates of the plan to ensure the balance. Nor is there a financial analysis model to identify when lease opportunities are better than own opportunities.
6. Short-term office needs should be satisfied via flexible leases.			▶			<ul style="list-style-type: none"> The City needs to be better able to identify and project office space needs so it can evaluate when short-term properties will be needed.

Cost-Effectiveness	Progress					Comments
	No Progress Made	Progress			Significant Progress Made	
	1	2	3	4	5	
7. Joint-use facilities (i.e., maintenance yards) are more cost-effective and efficient than single purpose facilities.			TBD			<ul style="list-style-type: none"> Joint-use facilities not yet reviewed; a project is under way in the Office of the CAO to develop a plan. Cost-effectiveness of joint-use maintenance yards should involve life-cycle cost analysis and operational assessments to make informed decisions.
8. Facilities that are 50 years old should be replaced or revitalized. After 50 years, conduct a cost-benefit analysis regarding revitalization versus replacement.			TBD			<ul style="list-style-type: none"> Replacement or renovation of older facilities has not yet been reviewed.
9. Surplus property should be disposed of immediately (sell, reuse, land bank or develop)			▶			<ul style="list-style-type: none"> Significant resources have been generated in disposal of surplus properties. The "Own a Piece of LA" initiative has led to the faster disposition of surplus properties. The overall process remains cumbersome, however. Changing Focus on Economic Development changes the determination of Surplus Properties

Cost Effectiveness	Progress					Comments
	No Progress Made	Progress			Significant Progress Made	
	1	2	3	4	5	
10. Non-profits in City facilities must be profitable either through services or rent.	◆-----TBD-----◆					<ul style="list-style-type: none"> It is difficult to standardize the values of services. Funding to monitor contractual obligations to maintain facilities are not readily available.
11. All retail revenue-generating opportunities using public and/or private sector partnerships should be maximized.	◆-----◆					<ul style="list-style-type: none"> Staff reductions have eliminated staff time to manage revenue generating initiatives. EWDD or CAO AMSP will identify public-private sector partnership opportunities related to economic development.
12. A comprehensive computer database is essential for the management of real estate assets.	◆-----◆					<ul style="list-style-type: none"> Resource constraints have reduced the City's ability to introduce a comprehensive data base. Key decision-makers must research information for decisions on their own
13. Professional asset management must support the delivery of municipal services. Decisions should be made in support of human resources, customer satisfaction, and information technology.	◆-----◆					<ul style="list-style-type: none"> In the current resource constrained environment, staffing cuts have affected professional development opportunities.

Environmentally Responsible	Progress					Comments
	No Progress Made	Progress			Significant Progress Made	
	1	2	3	4	5	
14. Every City facility should be a "Green Facility." All new City buildings must be LEED Silver or higher.	◆-----TBD-----◆					<ul style="list-style-type: none"> 23 of 49 large City projects (greater than 7,500 square feet) completed between 2002 and 2013 have achieved a LEED Silver, Gold or Platinum rating.

With the recession, the City has had to give more weight to near-term financial considerations when making decisions. Such decision-making, however, has “hidden costs” in the mid-term or long term since placement of services can actually cost more if locations are scattered, thereby fragmenting services, which ultimately leads to staff inefficiencies and decreased public satisfaction.

There will be situations where the short-term solution is also the best long-term solution. In the case of the City, this outcome may not have always been the result of careful analysis of the best long-term solutions when the City has had to focus on the immediate financial crisis and was supported by a real estate division which did not have the right organization, processes and systems in place to perform its functions efficiently.

3 STRATEGIC ASSET MANAGEMENT MODEL

This chapter elaborates on a proposed Strategic Asset Management Model for the City with an emphasis in closing the gaps in the 2009 R.E. Plan. Moreover, the proposed Strategic Asset Management Model goes beyond the Real Estate Division's mission since it encompasses the totality of real estate asset management in the City.

3.1 New Strategic Asset Management Model

In strategy studies, it is often useful to start with a strategic model that becomes the foundation for building the Strategic Plan. In order to further expand the City's focus on asset management, better recognize additional purposes of its assets, and clarify its priorities, PA recommends the City to 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 in the 2009 R.E. plan identified in the previous chapter and applying best practice.

The proposed model is based on four primary goals, which are defined as follows:

- **Support City services.** The City's primary interest in its facilities must be to ensure that those facilities support its ongoing operations. The City must provide safe, convenient, and cost-effective 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
- **Optimize economic and financial benefits.** The City should consider how the properties can generate other benefits.
 - Are there ways that the City can use properties as levers to generate job creation and economic growth – both by offering properties for development, and by using City workspace as seeds to improve neighborhoods?
 - How can the City take advantage of opportunities to generate revenues from its portfolio as it uses properties for City purposes?
 - Are there locations where the City should provide 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 are effective tools. Some examples are presented later in this chapter (Model Strategy 3). In addition, the City should identify and prioritize properties with private use restrictions: all the properties identified as high potential should be reviewed by the CAO's Strategic group with the help of

the new entities in charge of economic development efforts, and a revenue optimization plan should be developed

- **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
- **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.

These primary goals are supported by six Model Strategies which include specific implementation recommendations. The Model Strategies and the associated implementation recommendations are presented in Table 3-1 and described in details in the following sections.

Table 3-1: Proposed Strategic Asset Management Model goals, Model Strategies and recommendations

Goals	Model Strategies	Recommendations
<p>Support City Services</p>	<p><u>Model Strategy 1</u> - The City should ensure its City services are located for ease of public access and enhanced department efficiency and delivery of services.</p>	<p>In implementing this Model Strategy, the City should:</p> <ul style="list-style-type: none"> - Continue the policy of consolidating in the Civic Center, City workers who do not deal directly with the public - Use population levels and (where available) usage statistics to develop and implement a consistent policy for providing staffing at NCHs - Undertake an assessment of which services require staff to be located in NCH facilities and are most likely to be helpful to local residents - Where possible, use technology options and City facilities dedicated to other purposes (e.g., libraries, parks, police stations) for the provision of services that had been offered at NCHs.
<p>Optimize Economic and financial benefits</p>	<p><u>Model Strategy 2</u> - The City should optimize the economic development benefits of its assets.</p>	<p>The City should evaluate its portfolio and consider whether the highest and best use of a property potentially includes uses for economic development instead of, or in addition to, municipal uses. This evaluation will require a comprehensive review of candidate properties to ensure that the asset’s economic development potential is at least as great as its operational value.</p> <p>In order to focus on the right properties and make the right decisions for economic development, the City will need accurate data (which does not currently exist) that provide grounding for decisions, and processes that encourage thoughtful discussions. A set of clear guidelines would also increase the City’s ability to pursue a citywide policy for its properties, as contrasted with evaluating properties on a Council-district level.</p>
<p>Be Cost-Effective</p>	<p><u>Model Strategy 3</u> - The City should optimize the financial benefits of its assets to generate revenues to off-set maintenance and operating costs.</p>	<p>The City should assess the following revenue generation opportunities:</p> <ul style="list-style-type: none"> - Economic development initiatives, such as improving the Los Angeles Mall

- Normal property operations, such as leasing space for cell phone towers or finding retail tenants to operate in a City building
- Public-private partnerships or public-public partnerships.

Model Strategy 4 - “Surplus” properties – not identified as strong economic development opportunities – might be of use to non-profit organizations but only if they meet the Non-Profit Lease Subsidy and Real Property Sale Policy.

It is important that the Mayor and the City Council adopt the Non-Profit Lease Subsidy and Real Property Sale Policy, and that non-profit organizations be required to comply with this policy.

Model Strategy 5 - The City should ensure cost-effective management of its assets by evaluating lease versus buy options in the context of life-cycle analysis.

In implementing this Model Strategy, the City should develop the capacity to understand and project life-cycle costs for City properties, using that capacity to analyze recommendations about property disposition and acquisition, and inform decision-makers about the long-term commitments that are involved in portfolio management.

Be Environmentally responsible

Model Strategy 6 - The City should articulate clear, achievable areas where it can reduce energy consumption and support the City’s environmental efforts.

To efficiently implement this model strategy, the City should build upon what it has already accomplished to become a “greener” City and should purchase an Asset Management System with an Energy Management module.

Note that Chapter 5 provides a detailed timeline for the implementation of the proposed Strategic Asset Management Model and the Model Strategies.

3.2 Model Strategies

Model Strategy 1 - The City should ensure its City services are located for ease of public access and enhanced department efficiency and delivery of services.

In some ways, “Public Access” and “City Efficiency” represent conflicting goals. Municipalities typically have to balance providing services at multiple locations against consolidation and centralization.

- **Decentralization typically improves public access but can increase costs.** Multiple locations are typically more expensive and make it more difficult to coordinate services within departments, but offer more opportunities for economic development of seed locations and make it easier for the public to access City services
- **Centralization typically reduces costs but can impede public access.** Centralization allows the City to be more efficient by doing more with less, reduces the number of properties that must be managed and maintained, and facilitates “one-stop-shopping”, but requires more travel time by residents to access needed services.

The City must think about the impact of the assignment of workers to Neighborhood City Halls in terms of overall City expenses, and should seek ways to save money without sacrificing public convenience or local access. The City should consider:

- If it is more expensive to provide decentralized services, how much more expensive is it?

- What would the increment of savings allow the City to do if it was available?
- What options, other than the staffing of a facility, could provide services to constituents?

Recommendations:

In implementing this Model Strategy, the City should:

1. Continue the policy of consolidating in the Civic Center, City workers who do not deal directly with the public
2. Use population levels and (where available) usage statistics to develop and implement a consistent policy for providing staffing at NCHs
3. Undertake an assessment of which services require staff to be located in NCH facilities and are most likely to be helpful to local residents
4. Where possible, use technology options (e.g. on-site computers, kiosks, online services) and City facilities dedicated to other purposes (e.g. libraries, parks, police stations) for the provision of services that had been offered at NCHs.

Model Strategy 2 - The City should optimize the economic development benefits of its assets.

The City leaders are currently engaged in reorganizing and enhancing the City's function related to economic development. Significant recent and current efforts include:

- Establishment of the EWDD
- Expressed intent to enter into a contract with an economic development non-profit entity to provide development services on behalf of the City,
- Various City actions to receive or assume properties, rights, and grants of the City's former redevelopment agency, CRA/LA,
- Planned preparation of a Yards and Shops Master Plan to study conditions and needs of the City's portfolio of yards and shops, and opportunities for improvements, consolidation, and re-alignment
- Formation of the AMSP Unit in the CAO's office to identify and implement strategies to use the City's real estate assets to achieve economic development goals.

In addition, the City is evaluating which entities will authorize, implement and oversee the future investment, development and/or disposition of City properties. At the time this report is written, the City is considering making MFC the clearinghouse for initial decisions about using City properties for economic development, including joint development, public private partnerships, and disposition, with implementation and oversight roles to be assigned by MFC to appropriate entities, likely to include some combination of AMSP, EWDD, and the economic development non-profit entity or similar economic development non-profit.

Cities usually benefit from successful economic development efforts in two important ways: 1) through increased employment and tax revenues; and 2) by providing quality of life improvements to the residents in the form of civic amenities, jobs, and other benefits. The creation of and consolidation of economic development activities into the new department is an important step and an achievement of a significant goal for the City towards the promotion of economic growth and a pro-business environment. The City's recent efforts with regards to its economic development function will overlap with its asset management strategy in two areas:

- **Public-private or public-public sector joint ventures (Model Strategy 3)** – Managing properties which the City currently owns that may have a higher use as a joint venture or other initiative to spur

economic expansion, as contrasted with City ownership or occupation (see Model Strategy 4 for further elaboration)

- **Disposition (Sale or lease)** - Disposing of city-property for private development that create permanent jobs in key industry
- **Economic stimulation to a community** – Locating opportunities in which leasing or buying space for City workers to occupy can serve as an economic anchor around which other development will take place (e.g., consciously considering multi-use space for the delivery of City services).

Recommendations:

1. The City should evaluate its portfolio and consider whether the highest and best use of a property potentially includes uses for economic development instead of, or in addition to, municipal uses. This evaluation will require a comprehensive review of candidate properties to ensure that the asset's economic development potential is at least as great as its operational value
2. In order to focus on the right properties and make the right decisions for economic development, the City will need accurate data (which does not currently exist) that provide grounding for decisions, and processes that encourage thoughtful discussions. A set of clear guidelines would also increase the City's ability to pursue a citywide policy for its properties, as contrasted with evaluating properties on a Council-district level.

There are many examples of joint-venture agreements in which economic development projects generate revenues in addition to improving a neighborhood and boosting employment. While each individual deal will be unique, the overall set of guidelines should provide a context for the allocation of resources generated for the City by the EWDD initiatives. During the initial years of the EWDD and the establishment of its associated non-profit entity, the goals should be modest, escalating as experience and the EWDD portfolio grow.

Model Strategy 3 - The City should optimize the financial benefits of its assets to generate revenues to off-set maintenance and operating costs.

Recommendations:

1. The City should assess the following revenue generation opportunities:
 - a. Economic development initiatives, such as improving the Los Angeles Mall
 - b. Normal property operations, such as leasing space for cell phone towers or finding retail tenants to operate in a City building
 - c. Public-private partnerships or public-public partnerships
2. Changes in the Real Estate Division organization, such as increased collaboration with private real estate management firms and the deployment of a real estate portfolio management system are two solutions the City should consider in order to maximize its real estate portfolio revenues.

Departmental Revenue Opportunities

The City has three proprietary departments that exist to provide public services and which fund these services from non-general fund revenues. The three proprietary departments are Los Angeles World Airports (LAWA), Port of Los Angeles, and Department of Water & Power (DWP). Some of their revenue generation derives from their real estate holdings. The proprietary departments' properties lie outside of the scope of this effort, particularly the real estate located where they have operations, such as LAX or the Port. Some of the revenues from DWP and the Port of Los Angeles are placed in the General Fund; however, in the case of LAWA, the Federal Aviation Authority (FAA) has placed significant restrictions on using revenues for non-airport-related purposes.

City departments typically have limited opportunities to generate revenues using real estate. Where and how some departments might generate revenues can result in controversy, such as applying market rates for green fees at the Department of Recreation & Parks golf courses. The Department of Building & Safety generates revenues from its permitting fees, which help to cover some of its internal operations. State laws and court cases, however, restrict how much public agencies can charge beyond the actual costs of the services to the public. Therefore, most City departments are confined to charge break-even fees for services rendered, and are not encouraged to think entrepreneurially about their facilities.

For the non-proprietary, City departments, revenues generated are likely to only off-set some maintenance costs or support enhanced maintenance for individual facilities.

In spite of the existing barriers to re-use of proprietary properties, the City should explore opportunities to partner with proprietary departments to remove such barriers and potentially redevelop properties to augment the City's economic development efforts.

Real Estate Partnership Examples

Public-private partnerships, public-public partnerships, or contracting opportunities have proven to be successful solutions to enhance real estate revenue generation. Furthermore, such partnerships would enable the re-deployment of scarce City resources, initially devoted to this task, to other core City services.

Some examples of successful real estate partnership models in municipalities, government and education are presented next. There are a number of extraordinarily creative facility projects being successfully developed throughout higher education that provide badly needed facilities for the institutions and:

- Provide direct revenues
- Generate alternative funding for needed facilities
- Build strong retail and shopping venues

Table 3-2: Examples of public-private partnerships

Los Angeles County Department of Beaches & Harbors (DBH)

The County of Los Angeles has dedicated an entire department with real estate experts on staff to leverage the County's assets at the beaches and particularly in Marina del Rey (MdR).

DBH has two important goals for managing the County's valuable coastal assets:

- Generating revenue for the benefit of the County's more than 10 million residents
- Preserving the beaches, MdR, and the harbor's viability for future generations

Revenues from MdR land leases are used to fund DBH's Beach and marina operations, with the excess used for other Countywide public benefit programs, such as public health, health services, public safety, and libraries. DBH generates \$20 million annually for the County's General Fund. MdR is, therefore, an especially important revenue-generating property for the County.

While DBH revenues have always been important, the current State fiscal crisis highlights the need for the County to maximize opportunities to generate revenues independent of State sources. The current schedule for MdR lease expirations has provided an opportunity to shape MdR during the next several decades. Many of the new lease arrangements require the developers to make upgrades for the common good as community benefits, such as parklands, bike paths, etc.

City of Fredericksburg⁵

The continuing expansion of the Washington D.C. metropolitan area has put significant pressure on the city of Fredericksburg to accommodate a growing population, triggering the need for additional parking space in the downtown area. To answer this need, a private construction contractor (Donley's) teamed up with a local broker and an architecture firm to submit a proposal for a 297 spaces parking. Donley's worked closely with the City and all the stakeholders to ensure that their proposal would be acceptable to all parties.

This is a good example where a municipality was provided guidance in successfully developing its real estate infrastructure without being the principal in charge.

City of Dallas⁶

The City of Dallas and the Kroger Company entered into a public-private partnership to develop the Oak Lawn Library. The agreement included the right for the Kroger Company to construct a new grocery store on property they owned in exchange of the construction of a new 12,900 sq ft Library. The development agreement also included a joint-use parking lot on adjacent Library and Kroger property. The construction of the Library included site preparation, parking, lighting, and landscaping and Kruger contributed \$175,000 for a temporary Library to operate during the construction period.

Both the City of Dallas and Kruger now benefit from this development since the grocery store attracts Library users and vice versa. The number of Library users climbed by 71% two years after the construction of the new building.

The University of California (UC) System

Since the mid-1990s, the UC system, in collaboration with the State's Public Works Board, has supplemented its capital project financing mechanisms. Historically, the University had received direct annual capital appropriations in the State budget. As this source of funding began to diminish, the University, working with State agencies and the Legislature, created an alternate method, which leveraged annual state appropriations to provide capital project funding.

Under this mechanism, UC enters into a lease-purchase agreement with the State that is recorded as a capital lease. The State sells lease revenue bonds to finance construction and equip State-owned buildings on UC land to be used by the University. During the construction phase, the University acts as the agent for the State. Upon completion, the buildings and equipment are leased to the University under terms and in amounts that are sufficient to satisfy the State's lease revenue bond repayment requirements, with the understanding that the State will provide financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership of the building and equipment transfers to the University.

Such Capital Lease transactions have provided in excess of \$1.3 billion of building and equipment funding for UC projects, with annual State financing appropriations for principal and interest on the lease revenue bonds equaling approximately \$117 million.

San Diego State University Foundation-Paseo Project

The City of San Diego's 131-acre College Community Redevelopment Project Area focuses on student housing needs, transportation planning, parking, and public improvements.

The City is working with private developers to provide adequate student housing. Development has begun on several student housing projects; the Paseo, a large mixed-use project is being developed by the San Diego State University (SDSU) Foundation.

On 11 acres, the Paseo improves one of San Diego's older neighborhoods by combining housing with commercial

⁵ Source: The National Council for Public Private Partnerships – www.ncppp.org

⁶ Source: The National Council for Public Private Partnerships – www.ncppp.org

and retail shops, employment opportunities, university facilities, and public transportation, and creates a community gathering place where everyone feels welcomed and connected.

Plans for the project include 250,000 square feet of retail, restaurant and entertainment space, up to 470 apartments, and 100,000 square feet of campus-serving office space. The current concept is anchored by a multiplex movie theater, which would serve as University lecture halls on weekday mornings. Retail shops and cafes and restaurants with outdoor dining are also planned. The project will also include 1,922 managed underground parking spaces in a 2-level garage.

Once fully completed, the Paseo will support thousands of new residents in the area, house 1,300 SDSU students, provide more than 1,000 jobs, act as the southern gateway to SDSU, and create a dynamic work-live-play environment near the campus. The design of the area will provide synergy between the campus and college community, and will be coordinated with the development of a 6-mile trolley line extension through the campus. The estimated total project cost is \$330 million.

The timing is opportune for the City of Los Angeles in many ways, given the City's plans for:

- Revitalization of downtown with increased number of residents relocating there and potential addition of the Farmers' football stadium complex
- Updating of the Community Plans by the City's Planning Department
- Development Reform, including the City Planning Department's zoning code reform initiative (Re:Code LA) that will support mixed-use complexes in specific areas of the City
- Development of Transit Oriented Districts (TODs) around the new Metro stations along the "subway to the sea" corridor by DCP and Department of Transportation

For those initiatives that are not directly related to economic development projects, generating opportunities for revenue-producing leases requires:

- Implementing a program of identifying retail opportunities
- Managing an RFP process or negotiating rates
- Managing the tenant agreements, which often involve changes to City properties

Although there is robust private sector activity in this area, the City will find implementation of such real estate partnership models difficult unless it provides both funding and focus. Otherwise, these projects will likely to suffer competitively.

For example, unlike the County of Los Angeles Department of Beaches & Harbors, the non-proprietary City departments do not have an asset similar to MdR and would require specialized expertise to identify ways to leverage its existing assets to generate significant revenue. However, the County of Los Angeles Department of Beaches & Harbors provides a successful local governmental model that the City can learn from. While the County's Beaches and Harbors Department has significant real estate workers on staff to provide development services, the City should consider a different model. Assets with significant potential for retail leases should be seriously evaluated as candidates for assignment to a contract property management firm.

Model Strategy 4 - "Surplus" properties – not identified as strong economic development opportunities – might be of use to non-profit organizations but only if they meet the Non-Profit Lease Subsidy and Real Property Sale Policy.

Recommendations:

1. The City should consider leasing "surplus properties" which have not been identified as strong economic development opportunities to non-profit agencies. Where non-profit organizations are able

to pay market rates, there can be significant benefits to the City of co-locating City services to residents with non-profit organizations' offerings.

2. However, non-profit organizations are frequently not able to pay market rate rents, which is why the City has offered below market rates to over one hundred non-profit organizations in recent years. As mentioned in Section 2.2.6, such practice should be supported by the adoption and implementation of the pending Non-Profit Lease Subsidy and Real Property Sale Policy.

In implementing Model Strategies 2, 3 and 4, the City should:

1. Develop criteria for City properties most likely to be strong economic development opportunities including, for example:
 - o Property related: size, location, condition, transit-proximity, occupancy and environmental impact
 - o City strategy related:
 - o Impact on service delivery by the City
 - o Opportunity costs
 - o Consistency with the Economic Development Strategic Plan.
2. Identify potential target properties to be evaluated for development, including, for example:
 - o Los Angeles Mall
 - o West LA Municipal Building
 - o 6000 Jefferson
 - o Former Community Development Agency of the City of Los Angeles (CRA/LA) properties.
3. Post a public database of City-owned properties, providing organizations the opportunity to clearly identify which City owned properties are available and ensuring transparency in the allocation of City properties to non-profit agencies
4. Evaluate benefits of the City in managing the entitlement process for properties targeted to be used for economic development purposes (as opposed to contracting the entitlement process)
5. Take advantage of the streamlined permitting processes developed during Development Reform, such as the use of the Development Services Case Management Office at Figueroa Plaza (10th Floor), for such City projects
6. Where NCHs are no longer offering sufficient services to justify continuation, explore using the buildings first for economic development purposes and second for provision of space to non-profit organizations
7. Prioritize revenue opportunities that minimize time and focus required of City staff (e.g., joint ventures or contracting with retail vendors or brokers to represent all properties in a given area)
8. Include direct-revenue goals in the Economic Development Strategic Plan
9. Modify and obtain Council approval for the Non-Profit Organization Leasing Policy:
 - o If the financial review conducted of such a lease reveals that the non-profit organization will not be able to devote sufficient funds to maintain the property, take the following actions:
 - o Include the costs of maintenance that a non-profit organization is not expected to meet in the economic analysis as part of the cost of the lease to the City
 - o Budget for that maintenance as a part of the City's annual plan.

Model Strategy 5 - The City should ensure cost-effective management of its assets by evaluating lease versus buy options in the context of life-cycle analysis.

The City should always strive for cost-effective management of its assets. Cost-effectiveness is particularly critical given the City's current fiscal situation that emphasizes even more the need for the prudent use of public funds.

Recommendations:

1. In implementing this Model Strategy, the City should develop the capacity to understand and project life-cycle costs⁷ for City properties, and use that capacity to analyze recommendations about property disposition and acquisition, and inform decision-makers about the long-term commitments that are involved in portfolio management.
2. It is important for the City to identify the life-cycle costs for each of its properties. Life-cycle cost analysis will:
 - a. Permit the evaluation of the comparative net present value of lease versus buy decisions, avoiding the pitfalls of the 2009 R.E. Plan's focus on only one element of the equation – impact on identified funds
 - b. Encourage the City to address a significant issue for many City governments – what is the long-term implication of property acquisition?

As mentioned previously, prudent use of technology, improved data management and greater use of outside experts should all be key areas of the Real Estate Division's cost reduction strategy going forward.

Adequate Funding for Maintenance

The City must strive to commit adequate funding for the maintenance of owned property. If adequate maintenance and modernization funding is not available, owned assets will quickly deteriorate with unreliable systems and obsolete technology.

Building Infrastructure

Real estate assets with high energy costs and insufficient power or communications infrastructure can actually impede the City operations they are designed to support. If this situation seems likely, the City may be better off in terms of both its budget and its operations to lease space, rather than to own it.

Condemned Properties

Furthermore, for unique properties, such as condemned properties, the use of multi-year assumptions and cost data is essential to ensure that disposition decisions are properly made. The City should obtain an appraisal of the current value of the property, and estimate the cost of nuisance abatement and annual maintenance. The City should also project the annual diminution in value if the asset is not maintained, and the estimated value of the land alone. With these calculations in hand, the City would be in a better position to make smart decisions on leasing, sale, or even donation of property so as to optimize both its expenses and its assets.

⁷ Building life-cycle costs can be determined from the following formula: life-cycle costs = capital costs + maintenance and repair costs + utilities costs + replacement costs – salvage value. Source: "P.6 Lowest Life Cycle Cost", Guidelines, Performance Management, State of Minnesota, 2003-2004

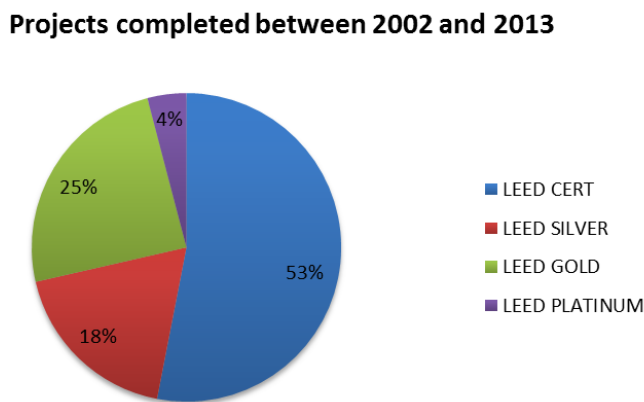
Model Strategy 6 - The City should articulate clear, achievable areas where it can reduce energy consumption and support the City’s environmental efforts.

Increasing numbers of public and private entities are pursuing environmentally sustainable solutions for managing and operating their facilities. Many of the sustainable solutions make sense in terms of both the environment and the economy.

As a public sector entity, the City should manage its assets in an environmentally responsible manner. In implementing this Model Strategy, the City should articulate clear, achievable directions to reduce costs (e.g., through reduced energy consumption) and support Los Angeles’s energy and environmental efforts.

Since the adoption of the Leadership In Energy And Environmental Design (LEED)⁸ "Certified" Level of the U.S. Green Building Council (USGBC) Rating System in 2003, the City has made significant progress in transitioning to a “greener” real estate portfolio. Nearly half (23 of 49) of the large City projects (greater than 7,500 square feet) completed between 2002 and 2013 have achieved a LEED Silver, Gold or Platinum rating. Furthermore, in 2009 the City Council increased the threshold to LEED Silver effective January 1, 2010 for all new construction and tenant improvement projects: more than half the new projects being completed between 2013 and 2016 are actually projected to exceed the LEED Silver rating. Furthermore, the City has recently adopted the LA Green Building Code for all projects being reviewed by the City’s Building and Safety Department.

Figure 3-1: LEED Rating for City Projects Completed Between 2002 and 2013



There are several advantages to achieving LEED standards, including improved recruitment and retention of employees, reduced energy costs, and improved productivity, especially when ergonomic standards are also applied. In addition, The City has started looking at energy savings, having worked on a survey in collaboration with the Los Angeles Department of Water and Power to identify potential energy efficiency upgrades. Note that most Asset Management System solutions include modules that automate the capture of building energy data from energy meters and building management systems. This emphasizes the need for such systems to enable the City to reduce its energy use and the related costs.

Recommendations:

To efficiently implement this model strategy, the City should:

⁸ “LEED is a program that provides third-party verification of green buildings. Building projects satisfy prerequisites and earn points to achieve different levels of certification. Prerequisites and credits differ for each rating system, and teams choose the best fit for the project.” – Source: <http://www.usgbc.org/leed>

1. Build upon what it has already accomplished to become a "greener" City
2. Purchase an Asset Management System with an Energy Management module.

4 IMPLEMENTATION: SUSTAINING THE MOMENTUM

While the 2009 R.E. Plan has served as an effective starting point for guiding real estate-related resource decisions, plans such as these should be updated every three to five years in order to incorporate changed goals or economic situations that might have occurred since adoption and to sustain appropriate decision-making effectively over the longer term. This chapter presents implementation strategies the City should consider so that the strategic planning momentum can be sustained.

Implementing the proposed Strategic Asset Management Model and developing the City’s next Real Estate Strategic Plan will require a robust strategic planning implementation framework. PA recommends this implementation framework to include the following elements and be supported by a set of Implementation Strategies:

Table 4-1: Suggested implementation framework

Implementation Framework Elements	Implementation Strategies	Recommendations/Comments
Planning Assumptions	<u>Implementation Strategy 1</u> - The City will need to develop planning assumptions for the Real Estate Strategic Plan in order to build and support an overall City Strategic Plan.	PA proposes a range of economic forecast assumptions and Strategic Asset Management Model assumptions in section 4.1.
Real estate strategic planning framework	<u>Implementation Strategy 2</u> - The City should support the new Real Estate Strategic Plan by developing a comprehensive implementation effort.	PA recommends the city to implement the strategic planning framework developed in King County, Washington, which links the Real Estate Strategic Plan with a Real Estate Strategic Plan’s Implementation Plan, and a Real Estate Asset Management Plan.
Strategic planning organization structure	<u>Implementation Strategy 3</u> - The City’s organizational structure should support the new strategic directions.	The City should leverage the recently established AMSP Unit within CAO to support its real estate strategic planning function.

Implementation Strategy 4 - The City should dedicate staff members to work with elected officials when updating the plans to generate consensus around new and modified short-, medium-, and long-term asset management goals and policies.

The City needs to find not only world-class technical and economic strategies for its assets but also needs to foster consensus on them within the City Council. This role should be assigned to the CAO's AMSP Unit.

Implementation Strategy 5 - The CAO's new AMSP Unit should establish clear lines of responsibility and accountability for strategy development and implementation.

The CAO's new AMSP Unit, when staffed and under the purview of the MFC, should provide financial and management insight for the Real Estate Strategic Plan. In addition, the City must develop effective streamlining strategies to make the best use of the resources available which will involve the establishment of clear lines of responsibility and accountability.

Implementation Strategy 6 - The CAO's new AMSP Unit should establish a process for ensuring on-going relevance and updating of the Real Estate Strategic Plan and related tactical plans.

A standard strategic management effort includes:

- The development of supporting operational or tactical plans
- Monthly or quarterly reviews of progress against these plans
- Annual updates to both strategic and tactical plans
- Linkage of tactical plans to budgeting processes
- A complete strategic plan reassessment every 3 to 5 years.

**Strategic
planning
processes**

Implementation Strategy 7 - The CAO's new AMSP Unit should develop metrics, establish baseline data and targets, and monitor performance of asset management effectiveness.

PA recommends the implementation of a Balanced Scorecard for strategy data tracking. The data should cover at least cost, condition, and utilization. However, PA recommends the City also consider public access, economic development, revenue generation and environmental responsibility metrics.

Implementation Strategy 8 - The City should deploy an Asset Management System in order to streamline the City's real estate functions and ensure that real estate data is accurate and up-to-date

PA has discussed the selection of the City's Asset Management System in details in a separate report.

The following sections provide detailed descriptions of the Implementation Strategies described in Table 4-1 and are organized by the corresponding implementation framework elements (planning assumptions, strategic planning framework, organization and processes).

4.1 Planning Assumptions

Implementation Strategy 1 - The City will need to develop planning assumptions for the Real Estate Strategic Plan in order to build and support an overall City Strategic Plan.

Ideally, the Real Estate Strategic Plan should be supportive of a Citywide Strategic Plan. The City will not likely adopt a City Strategic Plan during the planning period; however, the City can proceed with the development and implementation of a Real Estate Strategic Plan.

PA has developed planning assumptions associated with the Model Strategies outlined in this report which can serve as a “straw man” for the City to use in developing its next Real Estate Strategic Plan. The final Real Estate Strategic Plan should include documentation of the assumptions used.

PA’s proposed planning assumptions cluster into two areas: a) economic forecast assumptions, and b) Strategic Asset Management Model assumptions.

Economic Forecast Assumptions

The following planning assumptions pertain to economic forecasts for the State of California and the greater Los Angeles area, including City government:

- The Economic Development Corporation (EDC) predicts the State will outpace the country in Gross Domestic Product and that jobs will increase by 1.6 percent. Los Angeles will experience modest growth during the period
- California will continue to gain population, as it has during the past three years, which will slowly increase demand for services
- The City’s financial forecast projects level revenues during the planning period
- City staffing levels will remain largely the same during the planning period
- Facility operations and maintenance costs will likely increase at the rate of inflation
- The costs to operate and maintain existing facilities to a specified level of condition will likely be less than the cost to construct new facilities.

Strategic Asset Management Model Assumptions

These preliminary planning assumptions also align with the four primary goals recommended in the proposed Strategic Asset Management Model, as described in Chapter 3.

Table 4-2 outlines suggested planning assumptions for each of the four primary goals.

Table 4-2: Asset Management Goals and Related Planning Assumptions

Asset Management Model Primary Goals	Planning Assumptions
Support City Services	Public Access - The City will take advantage of technology options to offer unstaffed services at City locations. City Efficiency - For the planning period, the City will continue to centralize administrative functions in the Civic Center area, and will not move staff to other areas to act as seed tenants, except in special circumstances.
Optimize Economic and Financial Benefits	Economic Development - The City currently owns properties that are likely targets for economic development and will take appropriate actions that may involve moving City staff or other costs to gain the benefits. City properties will not need to be declared surplus for them to be considered candidates for economic development. Revenue Generation - Revenues generated through City properties will

represent less than .1 percent of the City's operating budget.

Support Non-Profit Organizations - The City will continue to provide properties to non-profit organizations at below market rents, evaluating them according to the guidelines outlined in the 2009 R.E. Plan.

Be Cost-Effective

The City has the capacity to develop reports on current and projected building costs to either construct new facilities or operate and maintain existing facilities.

The City can ensure utilization of owned facilities.

The City can ensure maintenance of owned facilities to a specified level of condition.

Be Environmentally Responsible

Even in an era of reduced resources, the City will attend to environmental issues, in a planned and prioritized manner. Sustainability initiatives can be financially self-sustaining.

To implement changes associated with Planning Assumptions, the City should annually articulate a set of "Planning Assumptions" that project a 3 -to 5year vision for such elements as:

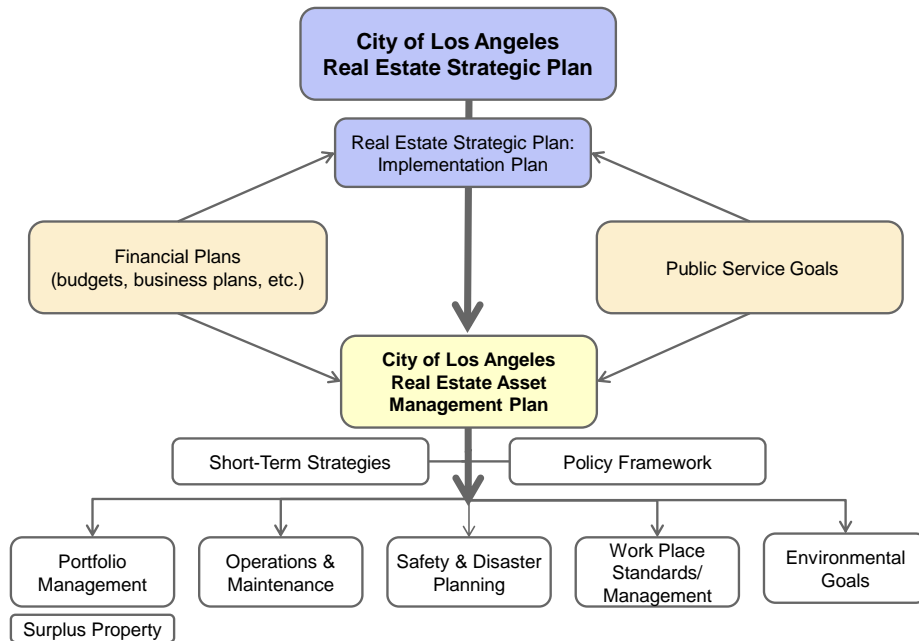
- A range of anticipated changes in staffing levels, by department
- Projected financial position
- City's economic forecast
- Major new technology developments or departmental initiatives that will affect property holdings
- Projections of changing resident demands for City services, including levels of service and service delivery mechanisms
- Legislative or administrative actions that will affect City staffing or space needs.

4.2 Real Estate Strategic Planning Framework

Implementation Strategy 2 - The City should support the new Real Estate Strategic Plan by developing a comprehensive implementation effort.

Figure 4-1, "Linkage of Real Estate Strategic Plan to Other Plans and Service Goals" shows the inter-relationships among the Real Estate Strategic Plan, an Implementation Plan based on the Real Estate Strategic Plan, and a Real Estate Asset Management Plan for Los Angeles based on a process developed in King County, Washington (2011).

Figure 4-1: Linkage of Real Estate Strategic Plan to Other Plans and Service Goals



Source: King County, Washington, Real Estate Plan, Volume 1, 2011:
<http://www.kingcounty.gov/operations/FacilitiesManagement/StrategicInitiatives/RealPropertyAssetManagementPlan.aspx?print=1>

The Real Estate Strategic Plan must have an Implementation Plan that outlines needed steps to make the strategy a reality. The financial plan and public service goals should be in alignment with the Real Estate Implementation Plan and, together, shape the Real Estate Asset Management Plan, which is more tactical.

The Real Estate Asset Management Plan should contain both short-term strategies and form the policy framework; its details would include:

- Portfolio management
- Operations & maintenance
- Safety & disaster planning
- Work place standards and management
- Environmental goals.

The City has completed detailed work on workplace standards in the 2009 R.E. Plan, reflecting the mainstream of governmental standards.

4.3 Strategic planning organization structure including a clear description of roles and responsibilities

Implementation Strategy 3 - The City's organizational structure should support the new strategic directions.

The City should ensure it has the organizational structure in place to execute the strategy. Two recent organizational changes should help facilitate such execution:

- As described earlier, the City recently established the AMSP Unit and transferred responsibility for asset management strategic planning from GSD to the Office of the CAO. Initial staffing has been completed, although additional resources should be assigned to address a long backlog of asset management strategic planning, and to implement the recommendations described in this report.
- In a separate action, the City is evaluating how the EWDD and an economic development non-profit entity will work to implement dispositions of economic development properties as identified by MFC.

These efforts are promising starts for a revitalization of the City's real estate function, and the City should build on them.

In addition, the CAO's AMSP Unit and GSD's Real Estate Division should both develop individual mission statements that clearly delineate each of their respective roles and responsibilities. Such delineation will help define their respective areas of accountabilities and working relationships, which will be useful for other City departments to know and understand.

Note that as part of this engagement, PA has reviewed the current organization structures and processes of GSD's Real Estate Division and identified potential improvements leading to a more desirable future state. PA's recommendations include:

- Make use of external contractors and Subject Matter Experts when appropriate
- Create clear processes and procedures
- Separate administrative roles from real estate functions
- Ensure real property information is updated and maintained.

Implementation Strategy 4 - The City should dedicate staff members to work with elected officials when updating the plans to generate consensus around new and modified short-, medium-, and long-term asset management goals and policies.

Planning Time Horizons

Five years is the shortest time horizon that should be used in making real estate asset decisions but most strategic decisions in asset management include planning horizons of 10 to 25 years. Real estate asset strategies take into account the life cycle of facilities that last 50 years or more. This time horizon is significantly longer than the term of any elected official. A key element of sound real estate asset management strategy is to:

- Identify long-term planning resources which can be assigned to this task
- Present cogent policy and action alternatives to City decision-makers as they come into the policy-makers' planning horizon of 3 to 5 years.

This issue is doubly challenging in the City of Los Angeles, with its strong City Council form of government. Proponents of strategic asset management need to develop visionary, yet attainable plans, based on sophisticated analysis and entrepreneurial courage. They also need to find a way to develop a consensus within a legislative body where disagreements are not unknown and Council District priorities can compete aggressively with citywide benefits. In these circumstances, the City needs to find not only

world-class technical and economic strategies for its assets but also needs to foster consensus on them within the City Council. This role should be one of the responsibilities of the CAO's AMSP Unit.

City Resources Dedicated to Real Estate and Asset Management

To build and implement a strategy will require dedicated City resources. The following assumptions pertain to making a Real Estate Strategic Plan and planning process a reality:

- The CAO's AMSP Unit needs to be fully staffed
- MFC meetings should be scheduled to review strategic progress
- The City should assign staff time to develop and track metrics
- The City financial management tools need to be able to generate a Consolidated Capital Plan.

Note that the City should not only rely on permanent City staff but should also consider contracting with external real estate Subject Matter Experts when appropriate.

Implementation Strategy 5 - The CAO's new AMSP Unit should establish clear lines of responsibility and accountability for strategy development and implementation.

Two aspects hinder strategic decision-making on asset management matters:

- **Fragmented and complex decision-making.** Real estate decisions in the City involve many different City staff members. For example, the NCH policy, articulated in the 2009 R.E. Plan, indicates that responsibility for implementing various steps in the process is split among five separate entities: the Mayor, the City Council, the CAO's office, the CLA, and GSD. Other steps require joint action by BOE and GSD, or GSD, CLA, and CAO. While it is necessary to have transparency and appropriate review of real estate activities, fragmented responsibility and multiple layers of review can hamper effective implementation of any strategy. The CAO's new AMSP Unit should establish clear lines of responsibility and accountability for strategy development and implementation, and those should be reviewed and approved by the MFC.
- **Focus on transactional decision-making.** The reductions in staff citywide caused by the financial downturn have contributed to an increased concentration on transactional decision-making – focusing on such questions as “Shall we approve this lease?” or “How can we keep our capital projects on time and on budget?” It is critically important for targeted staff and policy-makers to adopt a strategic perspective by:
 - Identifying and resolving policy issues that will clarify priorities for those responsible for implementing the strategy
 - Tracking progress in the context of environmental, social, and political changes to revise plan elements as needed.

Therefore, roles and responsibilities must be clearly assigned. Distinctions should be made between transactions where a designated person or unit may act, subject to later review, and those that require prior authorization. Clear lines of responsibility will aid in:

- Simplification and streamlining – enhancing more rapid project success
- Transparency, by placing clear responsibility with a single person or group.

Table 4-3 displays key roles – strategy, tools, and implementation – and responsibilities associated within asset management.

Table 4-3: Key Roles and Responsibilities in Asset Management

Key Roles and Responsibilities	Key Decision-Makers							
	Mayor	MFC	City Council	CAO	CLA	GSD	EWDD/n on-profit ED entity	BOE
Identify new strategic policy areas to be incorporated into a planning or implementation cycle	✓		✓	✓	✓			
Conduct policy analyses and recommend guidelines for consideration that reflect Mayor, City Council, and CAO positions				✓	✓			
Track progress on the implementation of the strategy		✓		✓				
Manage an annual update of the Strategic Plan, and complete the Strategic Plan re-examination every 3 to 5 years				✓				
Asset management decisions should be based on a holistic approach and consider all the properties which are owned or leased by the City, i.e. proprietary departments and council-controlled properties	✓	✓		✓	✓			
Develop proposals for major properties	✓		✓	✓			✓	
Review policy		✓		✓	✓			

initiatives for proposal to the City Council or its committees

Key Roles and Responsibilities	Key Decision-Makers							
	Mayor	MFC	City Council	CAO	CLA	GSD	EWDD/n on-profit ED entity	BOE
Develop planning assumptions to guide strategic discussions	✓			✓	✓			
Ensure technology developments are considered in facilities planning	✓	✓		✓				

Tools

Establish, maintain, and update a consolidated data base of Council-controlled City properties				✓		✓		✓
Analyze proposals for new leases or new building acquisitions to ensure life-cycle cost assessments have been properly undertaken				✓		✓		

Implementation

Act as a central point of coordination for proposals to use or develop surplus or potential economic development properties		✓		✓				
Assess short- and medium-term space needs for departments								✓
Coordinate or work with	✓			✓		✓	✓	

outside parties (e.g., developers) to develop deals

Key Roles and Responsibilities	Key Decision-Makers							
	Mayor	MFC	City Council	CAO	CLA	GSD	EWDD/n on-profit ED entity	BOE
Manage acquisition, disposition, and lease processes						✓		
Manage construction and maintenance of City properties	✓			✓		✓		✓
Perform comprehensive economic analyses of properties				✓		✓		
Monitor vacancy rates at City properties								✓
Manage financial aspects of asset management, including allocating funds for capital and major maintenance				✓				
Identify and recommend disposition of City properties related to economic development				✓			✓	
Perform day-to-day space planning and property management								✓
Identify decision-making body to evaluate initial proposals for re-use of City properties for economic development goals, and assign implementation teams as		✓						

appropriate.

Key Roles and Responsibilities	Key Decision-Makers							
	Mayor	MFC	City Council	CAO	CLA	GSD	EWDD/n on-profit ED entity	BOE

Standards

Develop standards for performance monitoring purposes				✓		✓		
Approve and endorse the standards		✓	✓					
Monitor the standards				✓		✓		

Some of these responsibilities have been clearly assigned; others have lacked the resources and attention that they deserved. Some will be best performed by contractors; others must be City responsibilities. What is critical is to define how these functions must work together to improve the management of the City's real estate assets.

Strategy

The CAO's new AMSP Unit, when staffed and under the purview of the MFC, should provide financial and management insight for the Real Estate Strategic Plan. It must take into account the efficiency requirements of City workers, the need for public access, and accomplishment of environmental and social goals as they affect strategy. Most important, the AMSP Unit must discipline itself to adopt a long-term planning horizon so that it can develop strategies that are implemented through shorter-term business planning and transactional decision-making.

Implementation, Tools, and Standards

Implementation functions must be performed in a manner that generates confidence in the recommendations associated with transactions. An effective tool is to agree on quality standards for typical functions, such as:

- Including comps when proposing new lease agreements
- Checking off the steps required in due diligence when proposing to purchase properties
- Specifying what is to be included in life-cycle and cost-benefit analyses
- Outlining vacancy rates at City properties and paying attention to reallocating space that was vacated due to the reduction-in-force by the City
- Establishing milestones in processes (e.g., turnaround times for transactions)
- Documenting assessments of departmental needs for proposed space expansions.

Maximum Use of Available Space

The City is currently in a transitional stage because of the reduction-in-force. With the staff reductions, office space needs are reduced and therefore standards should be revisited; for example:

- Some departments have taken over vacant space as “squatters”. In the private sector, landlords or property owners would charge the “squatters” for such expansion of the space they use.
- GSD could identify non-sedentary field jobs where staff is in the office for less than 40 percent of the day. Through the use of technology and shared seating concept, the City should re-evaluate space standards for these “mobile” jobs and assign less space to affected classifications.
- GSD could more proactively identify extra space and develop a course of action:
- Convert some of the vacant spaces into spare offices or conference rooms that could be used on an hourly basis, similar to “hotel” spaces
- Assign City workers who need work areas to the vacant spaces.

The challenge for GSD’s Real Estate Division as a “property owner” is that it is under-staffed, uses inefficient processes, relies on inaccurate or incomplete data and does not have an adequate Asset Management System to perform such duties. If they were private sector property owners, additional staffing would be assigned if sufficient revenues could be generated. That is not the case in the City right now. Moreover, much of the vacant space is a desk here or an office there. To capture and aggregate the available space is a major effort that requires investment and considerable movement of people and offices. Such an initiative may be worth doing, but it is certainly not something that GSD can handle with its current Real Estate Division’s organization, processes and system. In the private sector, those responsibilities are often assigned to an on-site building manager, which is a staffing model not currently used in the City.

Streamlining Processes

The City must develop effective streamlining strategies to make the best use of the resources available. One approach is to raise authorization levels when certain processes are followed. A useful model is public procurement. When an acquisition is publicly advertised, receives at least three bids, and is awarded to the low bidder, decision-makers can delegate much higher award levels to municipal staff. Similarly, when a lease meets certain criteria – comps, size, and length – approvals can be delegated (note that the Municipal Facilities Committee does not currently function under this approach). Post-audits must be conducted to ensure that the process was completed fairly and thoroughly.

To implement an expanded vision and the proposed Strategic Asset Management Model, the City may have to expand its expertise and resources available through hiring, training, or contract services.

During implementation, the City should address:

1. **Strategy** – Provide training in strategic planning and asset management for City workers involved in those functions
2. **Tools** – Establish, maintain, update and share a consolidated database of Council-controlled, City properties and analyze proposals for new leases or new building acquisitions to ensure life-cycle cost assessments have been properly undertaken
3. **Implementation** – Evaluate resource levels available for implementation to develop and propose recommendations about:
 - Process streamlining
 - Contracting out of work
4. **Standards** – Establish standards for transaction and quality expectations

4.4 Strategic Planning Processes

Implementation Strategy 6 - The CAO's new AMSP Unit should establish a process for ensuring on-going relevance and updating of the Real Estate Strategic Plan and related tactical plans.

A standard strategic management effort includes:

- The development of supporting operational or tactical plans
- Monthly or quarterly reviews of progress against these plans
- Annual updates to both strategic and tactical plans
- Linkage of tactical plans to budgeting processes
- A complete strategic plan reassessment every 3 to 5 years.

The City has not followed this standard. The MFC does not regularly monitor progress made against the 2009 R.E. Plan. There have been reports on the status of some elements of the 2009 R.E. Plan but the focus of MFC tends to be transactional as these reports are limited to lease cost reduction and Civic Center space consolidation. Actions presented to the MFC sometimes include references to the 2009 R.E. Plan, but the Guiding Principles and strategic goals do not routinely form the basis for decision-making in that body.

In addition, strategic asset decisions will benefit from public visibility and accountability. The establishment of the CAO's AMSP Unit offers an opportunity to adopt the standard of regular reviews, updates, and revisions. This standard will be particularly important as the City expands its asset management vision, includes new players – both contractors and internal City workers – into the process, and considers process changes to streamline work efforts.

During implementation, the City should:

1. Set up 2 to 3 measurements for each strategy and report on each strategy quarterly to the MFC (see Implementation Strategy 7 for further elaboration)
2. Schedule an annual asset management strategy review with the MFC, timed to ensure timely input into the City's budgeting process.

Implementation Strategy 7 - The CAO's new AMSP Unit should develop metrics, establish baseline data and targets, and monitor performance of asset management effectiveness.

There are standard metrics in the industry for managing costs of assets. For example, when managing the Federal Government's portfolio of real estate assets, the U.S. General Services Administration focuses on:

- Cost (operating costs per square foot - leased versus owned)
- Condition
- Utilization.

The City's current two to three key metrics for reporting to the MFC will not provide the full picture of asset management in the City. Additional data will need to be tracked. A widely used tool for data rich tracking of strategies is the Balanced Scorecard. It typically includes:

- Mapping of linkages between strategies via a Strategy Map
- Listing of initiatives that support the achievement of the metrics
- Gathering of metrics to assess both how well the strategies have been implemented and whether the strategies are generating the expected outcomes.

Whatever form of metrics reporting is chosen, the data should cover at least cost, condition, and utilization. PA recommends the City to add public access, economic development, revenue generation and environmental responsibility metrics.

- **Cost.** The City should gather, report, and monitor standard industry metrics, for example, comprehensive cost per square foot for office space. All costs need to be considered, including direct labor and supervision for City services. When considering how much it costs to contract out services, the City should include what it will incur for bidding, auditing, contracting, paying, and overseeing contractors. These calculations should be performed for acquisition, maintenance, and operations.
- **Condition.** The danger in efficiency measures is that, unless they are paired with quality measures, cutting resources associated with a property always generates efficiency measure improvements, even though they may have significant negative impacts on the quality of services rendered. Industry standards for office buildings – Class A, B, and C – provide a helpful framework for addressing that quality is maintained in office spaces. Figueroa Plaza is a Class A building, and agreements with the non-City tenant(s) will require that those standards continue to be met. That situation is less true for other City spaces, where reductions in resources spent in buildings show efficiency improvements, while building services and cleanliness suffer. Furthermore, the condition measures must take into account the condition of each facility. Otherwise, the City may generate reports showing reduced costs that actually reflect deferred maintenance – a de-facto loan that will eventually come due with interest and penalties.
- **Utilization.** Typical measurements of utilization involve the vacancy rates for City-owned and leased properties. Because the City is expanding its vision of real estate asset management, it will need to consider additional metrics that cover:
 - **Public access** – public utilization of services at NCHs and other non-Civic Center properties
 - **Economic development** – jobs created, property tax increment, sales tax increment, etc.
 - **Revenue generation** – net revenues generated, % of revenue goals achieved, etc.
 - **Environmental responsibility** – sustainability metrics such as energy efficiency and associated reduced energy costs (if applicable), square feet of LEED gold standard properties, etc.

This effort should be completed by the CAO. From the CAO's perspective in overseeing strategic asset management, the CAO can propose measures beyond its traditional financial metrics and request departments to gather data; however, the ability of the CAO to set non-financial targets is limited and requires departmental input and buy-in. While the CAO has been instrumental in monitoring fiscal performance in the past, expansion into monitoring real estate and facility operations performance may be new for the CAO and many City departments, and also requires Mayoral input.

Implementation Strategy 8 - The City should deploy an Asset Management System in order to streamline the City's real estate functions and ensure that real estate data is accurate and up-to-date

The City currently uses a multitude of single-function asset management solutions which do not appropriately support its asset management functions:

- There are inefficiencies, arising from having to manually update and maintain the single-function solutions (most of which are Microsoft Excel spreadsheets)
- There is no self-service capability. Stakeholders have to manually request real estate data from GSD which results in very long response times and distracts GSD management and staff from completing their core functions
- There is no integration between the single-function solutions. Therefore the processes that should be enabled by these solutions are unnecessarily segmented

- There is no single source of truth for data. Data is scattered across multiple solutions, requiring manual reconciliation, leading to data integrity issues.

In order to address these challenges, the City should deploy an off-the-shelf Asset Management System which will facilitate the maintenance of the City's real estate data (ensuring that the data is accurate and up-to-date) and will streamline the following real estate functions:

- Real Estate Portfolio Management: track, analyze and forecast real estate portfolio's financial performance and support lease, cost, and invoice administration processes
- Space Planning Management: plan, measure and optimize facility utilization and occupancy management
- Building Operations and Maintenance: schedule, dispatch, manage and report reactive and proactive maintenance work orders
- Environmental Management: support environmental sustainability, energy management, waste management, emergency preparedness and compliance management.

The implementation of a new Asset Management System will require strong governance, alignment and commitment within the City:

- Strong leadership from senior executives – providing commitment to seeing the changes through and the ability to cut across organization silos
- Strong stakeholder management – to ensure key constituents are engaged in the project, participate in discussion around tradeoffs and are working towards their phased implementation
- Strong vendor commitment – including professional services to support implementation, with ongoing maintenance & support at the appropriate level
- Independent Project Management Office (PMO) oversight for the program – to effectively drive the change and benefits realization on behalf of the City and provide transparent and objective status on progress
- Change Management - end-to-end, cross-functional processes need to be modified in order to manage the full lifecycle of a facility and roll-out the functionality to the City users
- Data cleansing - the data used for each facility will need to be validated, updated and added to in order to meet the full functional requirements of the system during implementation
- Data governance needs to be introduced in order to preserve the integrity of the cleansed data and ensure clarity on data ownership and update
- Effective testing against agreed requirements – including strong City involvement system, functional and user acceptance testing.

Note that PA has discussed the selection of the City's Asset Management System in details in a separate report.

5 REAL ESTATE STRATEGIC PLAN UPDATE TIMELINE

This section provides a timeline for the implementation of the model and the strategies discussed in this report. In addition, it shows how each task completed by PA during this engagement will address the proposed model and implementation strategies. The relevant PA tasks are:

- Re-organization recommendations - Review GSD's Real Estate Division organization and make recommendations on the desired future state
- Real estate assets value optimization - Create an interim database of the City properties, develop real estate portfolio value optimization goals and criteria, and create a high-level plan for property categories
- New Asset Management System recommendations - Review the City's current Asset Management IT (AMIT) systems' ability to support the function and make recommendations on a new system

The work performed by PA will help shape the details of each Strategic Asset Management Goal, Model Strategy, Implementation Strategy, and parts of the new Real Estate Strategic Plan. Table 5-1 indicates timing and what PA task will address each Model Strategy and Implementation Strategy outlined in this report.

The timing suggested in Table 5-1 is based on the following assumptions:

- In Progress: an initiative that the City is currently working on
- Short-Term: corresponds to a 12 month timing (January 2015 target date)
- Medium-Term: corresponds to 24 month timing (January 2016 target date)
- Long-Term: corresponds to a 36 month (or longer) timing (January 2017 target date or thereafter)
- On-Going: continuation of the initiative with routine updates and improvements made based on lessons learned and experiences to date.

Table 5-1: PA Tasks that Will Supplement the Proposed Strategic Plan Update

Strategic Plan Update	Timing	City Lead	PA Tasks			
			This Report	Re-Org	Assets	System
Model Strategy						
1. The City should ensure its City services are located for ease of public access and enhanced department efficiency and delivery of services.	In Progress; On-going	CAO, MFC	✓	✓	✓	✓
2. The City should optimize the economic development benefits of its assets.	Medium- to Long-Term; Then On-going	AMSP Unit	✓	✓	✓	✓
3. The City should optimize the financial benefits of its assets to generate revenues to off-set maintenance and operating costs.	Medium- to Long-Term; Then On-going	CAO, MFC	✓	✓	✓	✓
4. “Surplus” properties – not identified as strong economic development opportunities – might be of use to non-profit organizations but only if they meet the Non-Profit Lease Subsidy and Real Property Sale Policy.	In Progress; On-going	CAO, MFC	✓		✓	✓
5. The City should ensure cost-effective management of its assets by evaluating lease versus buy options in the context of life-cycle analysis.	Short- to Medium-Term; Then On-going	CAO, MFC	✓	✓	✓	✓
6. The City should articulate clear, achievable areas where it can reduce energy consumption and support the City’s environmental efforts.	Short- to Medium-Term; Then On-going	CAO	✓		✓	✓
Implementation Strategy						
1. The City will need to develop planning assumptions for the Real Estate Strategic Plan due to the lack of an overall City Strategic Plan.	Short-Term; Then On-going	CAO	✓	✓	✓	
2. The City should support the new Real Estate Strategic Plan by developing a comprehensive implementation effort.	Short-Term; Then On-going	CAO	✓	✓		
3. The City’s organizational structure should support the new strategic directions.	Short-Term	CAO	✓	✓		
4. The City should dedicate staff members to work with elected officials when updating the plans to generate consensus around new and modified short-, medium-, and long-term asset management goals and policies.	Short-Term; Then On-going	CAO	✓	✓		
5. The CAO’s new AMSP Unit should establish clear lines of responsibility and accountability for strategy development and implementation.	Short-Term; Then On-going	AMSP Unit	✓	✓		
6. The CAO’s new AMSP Unit should establish a process for ensuring on-going relevance and updating of the Real Estate Strategic Plan and related tactical plans.	Short-Term; Then On-going	AMSP Unit	✓	✓		

Strategic Plan Update	Timing	City Lead	PA Tasks			
			This Report	Re-Org	Assets	System
7. The CAO's new AMSP Unit should develop metrics, establish baseline data and targets, and monitor performance of asset management effectiveness.	Short-Term; Then On-going	AMSP Unit	✓	✓	✓	✓
8. The City should deploy an Asset Management System in order to streamline the City's real estate functions and ensure that real estate data is accurate and up-to-date	Short-Term	CAO, ITA	✓	✓	✓	✓

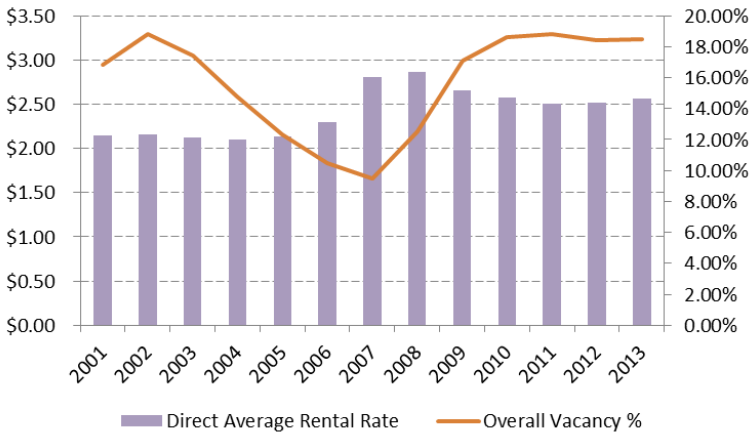
APPENDIX A: MARKET TRENDS

PA has gathered market trends from Cushman & Wakefield and REIS for the three property categories which are the most relevant to the City, i.e. office, industrial and retail space. Overall, while the office space market remains pretty stable, the industrial and retail space markets show encouraging signs of improvement.

Office Space

- Both the Direct Average Rental Rate and the Overall Vacancy rate have been pretty stable since the economic downturn of 2009 (\$2.54/sqft and 18.6% in average over the last 4 years).
- Relative to the first three quarters of 2012 and as of Q3 2013:
- Los Angeles’ slow growth continued with a 0.2% decrease in overall vacancy to 18.5%
- Leasing activity slightly outpaced last year’s volume by 0.9% to 10.1 million square feet
- Occupancy losses for the year totaled 281,178 sqft, largely due to Disney vacating over 400,000 sqft earlier this year
- Some rent growth occurred in the tighter submarkets such as Hollywood and Santa Monica.

Figure 5-1: Direct Average Rental Rate vs. Overall Vacancy Rate⁹



⁹ Data source: Cushman & Wakefield

Table 5-2: Market Trends Data - Office Space (data in square feet unless noted otherwise)^{10 11}

Year	Total Inventory	Direct Vacancies	Direct Vacancy %	Overall Vacancies	Overall Vacancy %	YTD Leasing Activity	YTD Direct Absorption	YTD Construction Completions	Direct Average Rental Rate
2001	175,468,677	23,337,334	13.30%	29,478,738	16.80%	13,059,433	-2,289,216	3,403,793	\$2.15
2002	182,166,240	27,926,391	15.30%	34,292,187	18.80%	13,144,492	-453,037	2,238,676	\$2.16
2003	183,446,813	27,780,860	15.10%	31,919,745	17.40%	13,785,610	453,775	1,114,336	\$2.12
2004	183,863,378	24,086,103	13.10%	27,211,780	14.80%	18,079,672	2,496,952	332,997	\$2.10
2005	184,607,106	20,675,996	11.20%	22,706,674	12.30%	17,636,285	3,517,407	791,357	\$2.14
2006	185,404,908	18,169,681	9.80%	19,467,515	10.50%	16,601,919	2,533,648	653,531	\$2.30
2007	186,621,198	15,912,812	8.50%	17,661,568	9.50%	15,242,320	3,336,945	838,000	\$2.81
2008	190,099,755	20,631,316	10.90%	23,747,598	12.50%	13,577,333	-4,499,437	1,040,892	\$2.86
2009	193,096,545	28,732,185	14.90%	33,026,180	17.10%	8,698,481	-5,111,556	2,249,045	\$2.65
2010	193,658,049	33,046,149	17.10%	35,961,783	18.60%	10,368,994	-2,685,697	367,658	\$2.58
2011	193,063,279	34,190,899	17.70%	36,316,355	18.80%	14,175,842	-1,032,664	326,988	\$2.51
2012	194,179,060	34,271,022	17.60%	35,701,075	18.40%	13,272,443	532,857	606,112	\$2.52
2013	194,898,834	34,678,343	17.80%	35,990,649	18.50%	10,142,067	-367,395	0	\$2.56

Industrial Space

- Over the last 4 years, the Overall Net Rental Rate has increased at an annual rate of 2.9% and the Overall Vacancy Rate has decreased by 2.1%
- Between Q3 2012 and Q3 2013, the Overall Net Rental price has increased by approximately 2% and the Overall Vacancy Rate has decreased by approximately 1%:
- Non-farm employment in Los Angeles County grew by 52,000 jobs, or 1.4%. Meanwhile, imports at the combined local ports increased year-to-date (through September) by 3.4%
- Vacancy rate in Greater Los Angeles ranked the second lowest in the nation at 4.5%. Leasing volume in Greater Los Angeles has been generally stable, only down 3.3% between Q3 2012 and Q3 2013 and totaled 28.1 million square feet through the third quarter
- Totalling 11.7 million square feet through Q3 2013, investment activity dropped 19.9% from a year ago; however, user sales remained strong and increased 13.6% from 2012.

¹⁰ Source: Cushman & Wakefield

¹¹ Year 2013 as of Q3 2013

Figure 5-2: Overall Net Rental Rate vs. Overall Vacancy Rate¹²

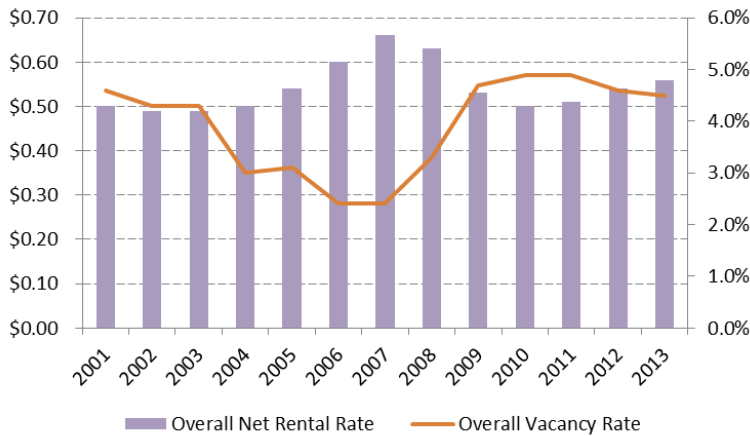


Table 5-3: Market Trends Data - Industrial Space (data in square feet unless noted otherwise)^{13 14}

Year	Inventory	New Construction	Under Construction	Net Absorption	Investment Sales	User Sales	Leasing Activity	Gross Absorption (Leasing + User Sales)	Overall Vacancy Rate	Overall Net Rental
2001	1,009,412,466	12,622,780	7,265,979	-5,748,890	3,427,014	8,324,920	24,479,407	32,804,327	4.6%	\$0.50
2002	1,021,219,071	8,612,788	5,665,782	11,313,676	4,709,419	8,479,892	34,789,569	43,269,461	4.3%	\$0.49
2003	1,025,551,594	8,402,073	6,133,522	8,994,000	9,356,391	8,793,561	32,740,027	41,533,588	4.3%	\$0.49
2004	1,037,101,836	7,013,884	4,996,831	12,649,675	12,781,286	15,529,032	33,820,992	49,350,024	3.0%	\$0.50
2005	1,055,244,802	7,140,230	5,004,747	5,881,781	11,267,603	13,038,932	32,303,699	45,342,631	3.1%	\$0.54
2006	1,060,927,243	5,682,441	1,779,175	12,932,776	17,157,367	9,311,383	35,221,515	44,532,898	2.4%	\$0.60
2007	1,063,548,464	2,621,221	2,368,829	1,512,046	9,394,128	5,134,224	34,463,413	39,597,637	2.4%	\$0.66
2008	1,064,570,222	2,725,927	3,415,562	-10,682,218	10,348,205	6,027,153	34,283,728	40,310,881	3.3%	\$0.63
2009	1,065,562,631	3,263,977	42,160	-19,310,414	5,026,862	4,778,017	28,645,813	33,423,830	4.7%	\$0.53
2010	1,066,610,248	531,791	1,441,878	-5,063,813	9,053,032	11,310,891	37,673,622	48,984,513	4.9%	\$0.50
2011	1,068,388,222	1,863,499	1,005,757	2,164,172	12,023,172	7,811,656	36,742,024	44,553,680	4.9%	\$0.51
2012	1,068,925,831	2,188,358	2,396,313	3,180,811	19,201,054	10,337,091	37,274,392	47,611,483	4.6%	\$0.54
2013	1,070,250,540	2,001,326	1,620,938	234,366	11,733,883	8,236,911	28,077,787	36,314,698	4.5%	\$0.56

Retail Space¹⁵

The Los Angeles basin retail market has improved over the course of the first two quarters of 2013 and is projected to follow that trend in the medium term:

- The retail vacancy rate has decreased to 6% in the second quarter of 2013, down from the 6.2% mark recorded at the end of 2010. REIS expects the retail vacancy rate to fall to 4.5% by 2017. Note that Los Angeles' retail vacancy rate is significantly smaller than the US and Western US averages (approximately 10% and 8% respectively in 2013)

¹² Data source: Cushman & Wakefield

¹³ Source: Cushman & Wakefield

¹⁴ Year 2013 as of Q3 2013

¹⁵ The data and information included in this section has been extracted from a REIS report on the retail market for the Los Angeles metropolitan area, for the second quarter of 2013.

- The community-neighborhood center net absorption has been positive since 2012 and is projected to remain positive in the next 4 years, crossing the million square feet mark in 2014 (from 642,000 square feet in 2012)
- Construction follows the absorption trend as REIS projects “an additional 481,500 square feet of community-neighborhood center space in six projects under construction for completion for the rest of 2013”
- Retail rents are on the rise since 2011, having increased again in the second quarter of 2013. Relative to the second quarter of 2012, the average asking rent and the average effective rent have both increased by 1.3%. In 2013, REIS expects average and effective rents to increase by 1.8% and 2.0% respectively, while the increase could go up to 3.0% for both measures by 2016.

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