

DATE: September 16, 2011
TO: Interested Persons
FROM: Office of the City Clerk
SUBJECT: NOTICE OF EXPIRED FILE STATUS

In 2005, the Council approved a policy wherein all Council files pending before the City Council, which have not been placed on a Council or Committee agenda for consideration for a period of two years or more, are deemed "received and filed." The City Clerk is responsible for the administration of this process.

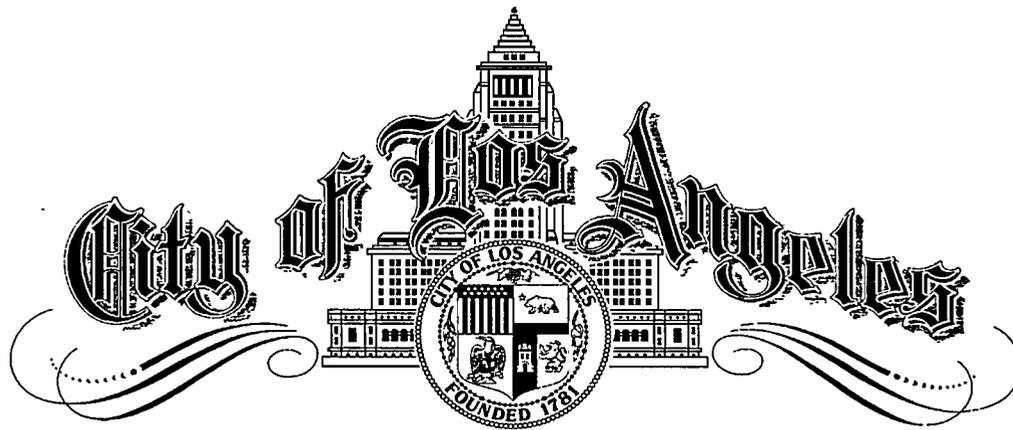
Quarterly each year, the City Clerk administratively closes all received and filed Council files. This letter provides notice that this Council file, and its subject matter, is no longer active as of September 16, 2011. This Council File is deemed closed.

PLACED ON FILE

SEP 16 2011

DEPUTY

A handwritten signature in black ink, appearing to be a stylized 'D' or similar character, located below the typed name 'DEPUTY'.



OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

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September 2, 2008

City Council
c/o City Clerk
Room 395, City Hall

Dear Honorable Members of the City Council,

In reference to the Follow-Up Audit of GSD's Asset Management Division that was released by my Office on March 5, 2008, please find the Department's response and my evaluation of that response.

Most sincerely,

Laura N. Chick
City Controller

SEP 03 2008
INFORMATION TECHNOLOGY & AUDITS & GOVERNMENTAL
GOVERNMENT AFFAIRS EFFICIENCY



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CITY CLERK'S OFFICE

2008 SEP -2 PM 4: 53

CITY CLERK

BY EA DEPUTY

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CITY OF LOS ANGELES
CALIFORNIA

TONY M. ROYSTER
INTERIM GENERAL MANAGER
AND
CITY PURCHASING AGENT



ANTONIO R. VILLARAIGOSA
MAYOR

DEPARTMENT OF
GENERAL SERVICES
ROOM 701
CITY HALL SOUTH
111 EAST FIRST STREET
LOS ANGELES, CA 90012
(213) 928-9555
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April 8, 2008

Laura N. Chick
Office of the Controller
200 North Main Street, Room 300
Los Angeles, California 90012

Controller's Office 2008 Follow-Up Audit of the Asset Management Division

The Department of General Services (GSD) values the comments made by the Controller's Follow-Up Audit of GSD's Asset Management Division. I believe both staffs have worked collaboratively to address all of the concerns outlined in this audit. In most cases where the Controller has indicated "Partially Implemented", the Controller indicates that full implementation requires certain actions by the Mayor and City Council to be taken.

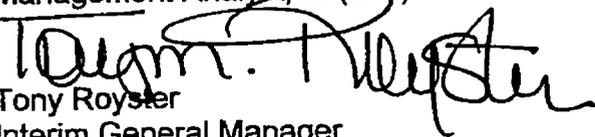
GSD agrees with the City Controller that the department has made tremendous strides in implementing all the recommendations in the three previous audits and we look forward to the next 20-years of successfully managing the city real estate assets.

GSD disagrees with the contention by the Controller's Office that is stated throughout the audits in 2003 and this follow-up audit that the City of Los Angeles did not have a strategic vision and guiding principles for City real estate. GSD developed a 20-year Office Facilities Master Plan, issued in 1996, which included a strategic vision and guiding principles for City real estate. The Mayor and City Council was guided by this 20-year strategic plan to make decisions on well over one billion dollars worth of City real estate assets. GSD is presently updating this 20-year strategic plan for the Mayor and City Council's approval.

GSD has determined that of the 18 recommendations, GSD has fully implemented 15. GSD has also determined that the remaining 3 recommendations were partially implemented.

Again as pointed out in the City Controller's audit, a major barrier to full implementation of the recommendations "all depend on the political will and action of the Mayor and Council."

If you have any questions, please contact Reginald Byron Jones-Sawyer, Sr., Chief Management Analyst, at (213) 922-8501.


Tony Royster
Interim General Manager

Attachments



EXECUTIVE SUMMARY

The Department of General Services' Asset Management Division (GSD) has developed a plethora of recommendations, reports, policies and plans for the effective and efficient management of City real estate. These plans covered the following areas of concern:

- 1996 Office Facilities Master Plan
- Comprehensive Policy on Real Estate Acquisitions, Leasing and Disposition of City Property
- Non-Profit Policy
- Lease versus Buy Plan and Policy
- Los Angeles Mall Marketing and Operations Plan
- Surplus Property Disposition Policy and Plan
- Own a Piece of Los Angeles (Disposition of Sliver and Remnants)
- Monthly Leasing Account Report

Each of these documents addressed all of the recommendations outlined in the three audits related to GSD's asset management activities.

- The Performance Audit of the Asset Management Division, General Services Department issued August 20, 2003, examined the Asset Management Division's activities in managing the City's real properties. The audit contained 14 recommendations.
- The Financial and Compliance Audit of the Department of General Services Sale of Surplus Properties issued October 22, 2003, examined AMD's compliance with the City's rules for the sale of surplus properties. The audit contained nine recommendations.
- The Financial and Compliance Audit of the Department of General Services Lease Expenditures issued November 7, 2003, reported on GSD's actions in response to a Council motion regarding a parking lot lease. The audit contained two recommendations.

While the 2003 audits were extremely helpful in assisting the Department to better manage its vast portfolio, the Controller's contention that there was no overarching strategy and guiding principles was misunderstood. A strategic plan has been in place since 1996 and will be updated in 2008. Approval by the Mayor and City Council of the Department's strategic plan and policies are the final steps for full implementation of the audit's findings.

In addition, unless the Mayor and City Council wants to change City, State and Federal regulations for Proprietary departments, a citywide database of all properties cannot include the Proprietary departments because the City Charter, State and Federal regulations restricts the City's authority over these assets.

The City has not established an agreed-upon comprehensive strategy for determining how its real estate portfolio should be managed so that real property assets are optimized for the City's use and to benefit residents.

GSD agrees with the Controller's findings that if the Mayor and City Council can come to an agreed upon comprehensive strategy for determining how its real estate portfolio should be managed, then city-owned real property assets can be optimized for the City's use and benefit for residents. GSD has had a 20-year vision and strategic plan for the City real estate since March 1996. This plan should be used as the cornerstone for developing policies and guiding decision-makers in the City of Los Angeles. The Office Facilities Master Plan developed by the Asset Management Division (AMD) provides an overall and direction on how to optimize the City's real estate assets. The following major policy points in that plan are:

- Real Estate Strategy for the City of Los Angeles
- Departmental Headcount Summaries
- Creating and Developing Workspace Standards
- Consolidation Opportunities
- Creating and Developing an AMD Database
 - o Database Facts
 - o Vacant Space
 - o Occupied Space
 - o Opportunities
- 5, 10, and 20-year Space Projections
- Van Nuys Civic Center Revitalization Project
- Civic Center Consolidation Requirements
- Lease versus Ownership Strategy
- Short Term Plan/Optimization of Status Quo
- Long Term Alternatives:
 - o Alternative I: Building a New Building
 - o Alternative II: Occupy Newer Existing Building(s)
 - o Alternative III: Occupy Historic Core Building(s)
- Regional Service Center Plan
- Redesign of the Los Angeles Mall

Based on the Office Facilities Master Plan as developed by AMD, the overall strategic framework for decision-making including planning and prioritizing efforts to manage the City's real estate assets for the past decade have been the following 12 principles:

1. Operating issues and needs (i.e., the municipal governance mission) take precedence over real estate issues. Professional asset management must support municipal services.
2. Consolidation of office functions in fewer locations leads to occupancy cost savings and operational efficiencies.
3. In addition to operating priorities, modern real estate and facilities decisions should be made in support of human resources, customer satisfaction and information technology. Care must be taken so that real estate savings do not result in higher technology and human resource costs.
4. Faithful application of the City's Adopted Workspace Standards will, over time, reduce occupancy costs per employee.

5. Long-term office needs should be satisfied via flexible leases.
6. High quality workspace and neighborhood amenities enhance employee productivity and support long-term real estate value in the area.
7. The City should be pro-active in supporting the intrinsic value of its real estate holdings, including support of the local real estate market.
8. In terms of asset management, a balance should be maintained between owned and leased facilities, so that the City can benefit as market conditions and space requirements change.
9. Highly specialized, single purpose office configurations should be avoided.
10. Agencies, which directly serve the public should, first and foremost, be located and situated with a priority to customer satisfaction.
11. Owned assets, which are deemed to have historic or traditional significance should, consistent with sound economics, be preserved and enhanced with a pro-active long-term building maintenance program.
12. The City should adopt a simple, clear, approach to consolidating its facilities in the Civic Center and several regional service centers.

The real estate vision and strategy in the 1996 Office Facilities Master Plan were the driving citywide policies, which led to the following major successes:

- Revitalization of the historic Joan Milkes Flores San Pedro Neighborhood City Hall
- Revitalization of the old Van Nuys City Hall
- Revitalization of the Hollywood Neighborhood City Hall
- Revitalization of the Sunland Tujunga Neighborhood City Hall
- Revitalization of the West Valley Neighborhood City Hall
- Building a new Marvin Braude San Fernando Valley Neighborhood City Hall
- Purchase of the Figueroa Plaza Building
- Purchase of the Public Works Building
- Major reduction in private sector leases
- Development and Implementation of the Neighborhood City Hall's Plan
- Institution of citywide space standards
- Creation of a real property database
- Creation of a leasing database
- New upscale retail LA Mall tenants (Quiznos, Robeks, California Pita)
- Development of a Non-Profit Policy
- Development of a surplus property strategy and three-year marketing/sales Plan
- Development of a Leasing versus Buy Policy

The City is well past the halfway point of AMD's original 20-year strategic plan. AMD is developing an updated 20-year plan, which addresses all of the new exciting development in the Civic Center. This new updated plan is being finalized and will be ready for the Municipal Facilities Committee's review and approval in 2008. The plan will specifically address the

following short and long-term issues in addition to updating the items in the current 20-year strategic plan:

- New Civic Center Master Plan
- New Major Office Building Plan
- Updated Los Angeles Mall Marketing and Operations Plan
- Updated Non-Profit Policy
- Updated Surplus Property Disposition Policy and Plan
- Updated Neighborhood City Hall's Policy
- Updated Lease versus Purchase Policy

Also, in this report will be the "City's NEW Strategic Vision and Guiding Principles for City Real Estate." They are:

1. Owning property for long-term space needs is always preferable to leasing (Taxpayer's Dollars should be used for equity investment)
2. Non-Profits in City facilities must be profitable either through services or rent
3. Dispose of surplus property immediately (sell, reuse, land bank or develop)
4. Maximize all retail revenue generating opportunities utilizing public/private partnerships
5. Joint-use facilities are more cost effective and efficient
6. Replace and/or revitalize facilities that are 50-years old
7. Make every City facility a "Green Facility"

For the updated strategic plan to be more effective, the plan will need the City's leaders review and approval of these policies to ensure consistency in managing the City's vast real estate portfolio for the next 20-years.

Surplus property sales have not increased. The process is cumbersome, and since decisions are not driven by an overall Citywide vision, individual Council Offices can object to potential sales without full Council consideration.

AMD has developed a database on surplus property that categorized each parcel and prioritized potential salable parcels. AMD now knows which parcels are candidates for affordable housing, open space, parks, commercial development, slivers and remnants, and blocker lots.

Once approved by the Mayor and City Council, the AMD Surplus Property Disposition Plan will aggressively sell all marketable properties in the City's database within three years. AMD has marketed and sold its properties through auctions. AMD has a 100% sales success rate and sold property above the appraised value. Of course, with the real estate market in a slump, AMD will improve our already successful marketing strategy to maintain our 100% sales rate.

AMD has reduced the number of steps in its surplus property sales procedures with follow up procedures for City departments who do not respond in a timely manner; however, AMD cannot compel another City department to meet established timelines for completing surplus property assignments.

A Citywide database of all properties does not exist.

AMD does have a database for all 2,400 properties under their purview and will continue to improve on what they have. A few errors were made and quickly corrected.

GSD has no authority over the Proprietary Departments; however, GSD working closely with the previous Mayor had the Mayor's Office request real property information. Because of GSD and the Mayor's efforts, the Proprietary Departments (Harbor, DWP and Airports) have been investigating developing a database that will interface with AMD's database. These new systems would be compatible with AMD's system and lead to one database. Harbor and DWP have contacted the consultant AMD used to create our surplus property database and they have not been successful in finalizing their efforts to create a workable database.

Because of City, State and Federal regulations for Proprietary departments, a citywide database of all properties cannot include the Proprietary Departments' properties since the City Charter, Public Utilities Commissions, State Tidelands and Beaches, and Federal Aviation Administration restricts authority over these assets to the respective Proprietary Departments.

In addition, the Controller noted incomplete and inaccurate information for City Council-controlled surplus property. AMD has corrected these minor errors and omissions and will continue to monitor, review and update the database on a monthly basis.

Section 1: Asset Management Division Performance

The 2003 audit and Follow-Up Audit misstates that the City lacks an overall strategy for managing the City real estate assets.

The March 1996 Office Facilities Master Plan is the City's 20-year real estate strategy. The Master Plan sets the guiding principles for ensuring the City occupies space that supports providing municipal services and houses City employees effectively to the benefit of the City's constituents. The Master Plan also identified the need for a property database to track the City's vacant and occupied office space; provided a methodology for defining the City's office space needs; established the basis for lease versus ownership analysis; and recommended short and long-term solutions for meeting space requirements. The Master Plan helps guide GSD and the City's decisions for managing municipal facilities valued at over \$1 billion.

GSD took the lead in creating a City strategy that would facilitate decision-making by City leadership for leasing, property management, acquisitions, and disposal of city real estate.

Prior Recommendation #1: AMD should develop option papers addressing financial, operational and policy implications for MFC, Mayoral and City Council consideration that facilitate coherent, planned decisions.

- a. **These papers should address, as a start, overall City Real Property Portfolio Composition, Mall Marketing and Operations, and a strategy for Surplus Property disposal.**
- b. **AMD should with the MFC, Mayor and the City Council seek to generate consensus on the overall strategies or policy directions, and use them as guidance for planning and prioritizing its work.**

Implemented

GSD has developed a plethora of recommendations, reports, policies and plans for the effective and efficient management of city real estate. These plans covered the following areas of concern:

- 1996 Office Facilities Master Plan
- Comprehensive Policy on Real Estate Acquisitions, Leasing and Disposition of City Property
- Non-Profit Policy
- Lease versus Buy Plan and Policy
- Los Angeles Mall Marketing and Operations Plan
- Surplus Property Disposition Policy and Plan
- Own a Piece of Los Angeles (Disposition of Sliver and Remnants)
- Monthly Leasing Account Report

GSD has taken the lead in creating a City strategy since 1996, which includes the Los Angeles Mall. The LA Mall is one example of what could be done if the decision makers had both the political will and funding to develop any one of GSD plans. The LA Mall was originally designed as a food court and convenience for city employees. The LA Mall has limited parking; it is below ground retail, and needs major upgrades and renovations.

GSD has two options for managing the Mall more effectively:

1. Improve its as a food court by upgrading the retail tenants and providing more amenities with the existing infrastructure (Minimal Cost: less than \$100,000)
2. Redevelop it into a major shopping and destination center by moving the shops above ground and linking it to El Pueblo (Minimal Cost: \$140 million)

At this time, the most efficient way to manage the Mall is to continue to upgrade the existing tenant mix.

GSD submitted these and other reports to the appropriate decision-makers for approval and direction. Once adopted by Mayor and City Council, these reports will ensure that the four key areas of concern by the Controller's Office are addressed:

1. Establish guiding principles for property decisions supported by the Mayor and City Council
2. Implement a strategic property management approach to City-owned real property
3. Focus elected City decision makers on real property strategic and policy issues; and
4. Maximize financial value of or return on properties

Barriers to Implementation

The Department does agree with the findings of the Controller that complete implementation of this recommendation requires City leadership to reach a consensus on the proposed strategies for managing the City real estate portfolio proposed by GSD.

Prior Recommendation #6: AMD should prepare annual and quarterly reports of the status of real property management for submission to the MFC.

Partially Implemented

GSD does provide periodic reports to members of the Municipal Facilities Committee (MFC) as directed; however, GSD will assist the MFC by providing more comprehensive reports. The department will gather all the appropriate information, analyze the findings and make recommendations from those findings to the MFC.

GSD will provide the MFC with the following reports on an annual and quarterly basis:

1. Comprehensive Leasing Status Report (Status of Expiring Leases, Lease Concentration, Month-To-Month Leases and Estimated Net Cost to the City of Continuing the Leases)
2. Building Deferred Maintenance Status Report
3. Non-Profit Status Report
4. Comprehensive Surplus Property Status Reports

Prior Recommendation #8: AMD should set up a separate unit to handle planning and reporting functions.

Partially Implemented

GSD has created an alternative way to build on the suggestions made in the Vision and Strategy report to provide the City with a comprehensive plan for asset management and regularly report on the status of its efforts. While funding was not approved to set up a dedicated Planning Group, the GSD/AMD continued to effectively plan and report on major real estate planning and strategic management initiatives by utilizing top management staff and private sector real estate experts. This work around planning group, which includes the Studley Group (City's private sector real estate consultants), is developing an updated strategic plan that will be completed in April 2008.

Prior Recommendation #9: AMD should seek broader transaction authority in conjunction with a redesign of its processes, starting with surplus property disposal.

Implemented

GSD has made attempts to implement this recommendation, however, implementation is contingent on City leadership giving more authority to GSD to proceed with certain real property transactions, such as surplus property disposal. As noted in the audit, sales of surplus property can take one to two years to complete because the City's surplus property process has a number of required time-consuming reviews and clearances from various agencies, as well as, several city departments.

Barriers to Implementation

As noted by the Controller's Office, AMD has made attempts to implement this recommendation. However, implementation is contingent on City leadership giving more authority to GSD to proceed with certain real property transactions, such as surplus property disposal. According to the Controller, until the City allows GSD more discretion in carrying out its responsibilities, this recommendation will not be fully implemented.

Prior Recommendation #10: AMD should continue to work with other GSD units and the Proprietary departments to establish a citywide database of properties.

Implemented

AMD does have a database for all 2,400 properties under their purview and will continue to improve on what they have. A few errors were made and quickly corrected.

GSD has no authority over the Proprietary Departments. According to Sections 602, 631, 651, and 672 which specifically states that the Proprietary departments exclusively own, operate, manage and control all assets, including all land, GSD has no jurisdiction over the Proprietary departments.

GSD working closely with the previous Mayor had the Mayor's Office request real property information. Because of GSD and the Mayor's efforts, the Proprietary Departments (Harbor, DWP and Airports) have been investigating developing a database that is comparable to the one AMD has created. These new systems would be compatible with AMD's system and lead to one database. Harbor and DWP have contacted the consultant AMD used to create our surplus property database and they have not been successful in finalizing their efforts to create a workable database.

Barriers to Implementation

In addition to GSD not having authority over the Proprietary Departments, meeting the intent of the recommendation requires the Proprietary Departments to have compatible information systems with GSD so that data can be readily transferred. An alternate solution requires staff time of GSD and the Proprietary Departments to resolve data problems with previously provided information.

Prior Recommendation #11: AMD supervisory staff should monitor security of the Lease Information System (LIS) by designing and reviewing a chronological report or log of all changes to the system that affect payments to landlords.

Partially Implemented

GSD agrees with the Controller's findings and has addressed this recommendation. GSD working with its Management Information Systems Division will develop monthly logs to have AMD management monitor changes to LIS and determine its appropriateness.

Non-profit leases should not be in the LIS. These leases have specialized terms and conditions that cannot be managed like a commercial lease agreement.

Prior Recommendation #12: AMD should develop additional outcome-based and process-time measurements to improve workload management and staff productivity.

Implemented

GSD agrees with the Controller's findings. Based on GSD's real estate expertise, outcome-based and process-time measurements already developed and implemented is all that AMD

needs to help improve workload management and staff productivity. However, outcome measures need to be driven by an agreed upon Citywide vision and strategy.

Section II: Sale Of Surplus Properties

Prior Recommendation #1: GSD should identify and prioritize the City's vacant properties that are marketable and aggressively initiate a program to pursue their sale.

Implemented

GSD agrees with the Controller's findings. AMD has developed a database on surplus property that categorized each parcel and prioritized potential salable parcels. AMD now knows which parcels are candidates for affordable housing, open space, parks, commercial development, slivers and remnants, and blocker lots.

Once approved by the Mayor and City Council, the AMD Surplus Property Disposition Plan will aggressively sell all marketable properties in the City's database within three years. AMD has marketed and sold its properties through auctions. AMD has a 100% sales success rate with sales exceeding the appraised value by 30% or more.

The primary challenge with selling surplus city properties is obtaining the approval of the resident Council member. A Council member makes the final decision on the disposition of properties in their district.

Barriers to Implementation

Complete implementation of this recommendation requires City leadership to reach a consensus on the strategy for managing the City's real estate portfolio and formal approval of various items proposed to assist in expediting the disposition of surplus property, such as GSD's Surplus Property Disposition Program and "Own A Piece Of L.A." Program.

Prior Recommendation #2: GSD should maintain complete and accurate information in its Surplus Property Inventory List, in order to manage said properties properly.

Partially Implemented

GSD agrees with the Controller's findings that minor errors were made or information missing on the Comprehensive Updated Surplus Property List. These error and omissions were immediately rectified and a monitoring system is in place to ensure that this does not occur again.

Prior Recommendation #4b: GSD should review and evaluate the required process on the sale of surplus properties. If necessary, streamline processes so that the sale of surplus properties can be completed more efficiently and in a timely manner.

Implemented

GSD does not agree with the Controller's findings. The Surplus Property Procedures Checklist has been streamlined from 64 steps to 32 steps to 18 steps. The Surplus Property Procedures

Checklist is periodically being reviewed for possible additional streamlining opportunities and AMD found no new changes necessary.

The most important step in the process is Council Office approval. GSD could have two steps in the process to sell the property and Council approval. If the Council member holds up the sale then GSD cannot move forward.

Prior Recommendation #4c: GSD should increase its efforts to coordinate and follow-up on the clearance processes with involved City departments, such as the Bureau of Engineering and Planning Department, to minimize delays on the sale of surplus properties.

Implemented

GSD does not agree with the Controller's findings. GSD does monitor and follow-up on the clearance processes with involved City departments, however, GSD has no operational control over other City departments in the clearance process and cannot dictate when they will clear parcels for sale. GSD cannot compel a department to comply with the deadlines in the surplus property procedures checklist.

As far as specific sales mentioned in the audit, all were delayed because GSD needed Bureau of Engineering and Department of Transportation Board approval and clearance. Either City property needed a future street dedication, which required a street vacation by the adjoining property owner or approval from the DOT Board to sell the land was required, each case had made the sale more time-consuming.

Prior Recommendation #4d: GSD should attempt to process and complete the sale of surplus properties in a timely manner. This would ensure timely availability of additional revenues for city programs and projects.

Implemented

GSD does not agree with the Controller's findings. GSD does not have control over how soon City departments will follow-up on requests for additional information and sign offs on the disposal of property. Staff in GSD does process and complete its responsibility in a timely manner however it is hamstrung by other entities it does not have any authority over.

Prior Recommendation #4e: Develop formal written policies and procedures on the sale of surplus properties, which would serve as a guideline and provide consistency in processing the sale of surplus properties.

Implemented

GSD agrees with the Controller's findings. AMD has developed formal written policies and procedures on the sale of surplus properties. The Mayor has approved the plan and submitted to the City Council for approval. The City Council has not approved the plan, which would serve as a guideline and provide consistency in processing the sale of surplus property.

Barriers to Implementation

According to the Controller's audit, complete implementation of this recommendation requires consensus with and approval of the MFC, Mayor and City Council with the City's overall vision and strategy for real property asset management.

ASSET MANAGEMENT DIVISION PERFORMANCE IMPLEMENTATION STATUS

RECO	RECOMMENDATION	STATUS	GSD EVALUATION
1	<p>AMD should develop option papers addressing financial, operational and policy implications for MFC, Mayoral and City Council consideration that facilitate coherent, planned decisions.</p> <p>These papers should address, as a start, overall City Real Property Portfolio Composition, Mall Marketing and Operations, and a strategy for Surplus Property disposal.</p> <p>AMD should with the MFC, Mayor and the City Council seek to generate consensus on the overall strategies or policy directions, and use them as guidance for planning and prioritizing its work.</p>	Implemented	Controller's Office concurs that option papers were written. AMD did seek to generate consensus on the updated strategic plan.
3	AMD should propose an extension of the reach of the policy regarding leasing to non-profit organizations to cover all non-profit tenants in the City.	Implemented	Controller concurs it was implemented.
6	AMD should prepare annual and quarterly reports of the status of real property management for submission to the MFC.	Implemented	Controller's Audit acknowledges that AMD does prepare annual and quarterly reports to the MFC. These reports do indicate the status of real property management. AMD will increase the number of comprehensive reports to the MFC.
8	AMD should set up a separate unit to handle planning and reporting functions.	Partially Implemented	AMD created a Committee of real estate professionals and city staff to help develop the overall strategy for the City. Funding is needed to set up a separate unit.
9	AMD should seek broader transaction authority in conjunction with a redesign of its processes, starting with surplus property disposal.	Implemented	Controller's Audit concurs that GSD did seek broader transaction authority, but the authority was not approved.

10	AMD should continue to work with other GSD units and the Proprietary departments to establish a citywide database of properties.	Implemented	GSD did attempt to voluntarily bring the Proprietary departments into its database; however, the City Charter prohibits GSD from managing their assets.
11	AMD supervisory staff should monitor security of LIS by designing and reviewing a chronological report or log of all changes to the system that affect payments to landlords.	Partially Implemented	AMD has chronological report logs for any changes to the system. AMD will establish a monthly monitoring system for management of LIS.
12	AMD should develop additional outcome-based and process time measurements to improve workload management and staff productivity.	Implemented	AMD does have outcome-based and process time measurements.

SALE OF SURPLUS PROPERTIES IMPLEMENTATION STATUS

Reco	RECOMMENDATION	Status	GSD Evaluation
1	Identify and prioritize the City's vacant properties that are marketable and aggressively initiate a program to pursue their sale.	Implemented	Controller's audit acknowledges that GSD does have a plan for surplus property sales. It is an aggressive plan. The plan has not been approved by the City Council. Approval of implementation is with the City Council.
2	GSD should maintain complete and accurate information in its Surplus Property Inventory List in order to manage said properties properly.	Partially Implemented	Controller wants GSD to manage Proprietary departments, which is not in compliance with the City Charter or State and Federal regulations. GSD has a database for all properties under their purview.
3	GSD should provide adequate oversight to ensure compliance with provisions of Administrative Code 7.22(d), the requirement to obtain CAO's review and recommendation on the propriety of the direct sale of surplus properties.	Implemented	Controller concurs it was implemented.
4a	GSD should provide adequate oversight to ensure that current and/or updated appraisal reports are obtained prior to the sale of surplus properties to protect the City's best interests.	Implemented	Controller concurs it was implemented.
4b	GSD should review and evaluate the required processes on the sale of surplus properties. If necessary, streamline processes so that the sale of surplus properties can be completed more efficiently and in a timely manner.	Implemented	Based on the Controller's audit, GSD has streamlined the process for 32 steps to 18 steps.
4c	GSD should increase its efforts to coordinate and follow-up on the clearance processes with involved City departments, such as Bureau of Engineering and Planning Department, to minimize delays on the sale of surplus properties.	Implemented	GSD does complete the surplus property sales requirement under their purview in a timely manner. GSD has no jurisdiction over other department's ability to

			meet deadlines.
4d	GSD should attempt to process and complete the sale of surplus properties in a timely manner. This would ensure timely availability of additional revenues for city programs and projects.	Implemented	GSD does complete the surplus property sales requirement under their purview in a timely manner. GSD has no jurisdiction over other department's ability to meet deadlines.
4e	GSD should develop formal written policies and procedures on the sale of surplus properties, which would serve as a guideline and provide consistency in processing the sale of surplus properties.	Implemented	Based on the Controller's audit, written policies and procedures were developed. The policies and procedures were approved by the General Manager and implemented.

LEASE EXPENDITURES IMPLEMENTATION STATUS

RECO	RECOMMENDATION	STATUS	GSD EVALUATION
1a	GSD should conduct a survey of possible alternate locations for the parking lot that would meet the parking needs of the Asphalt I operations and negotiate a lease for another location.	Implemented	Controller concurs it was implemented.
1b	GSD should conduct feasibility studies on leases that have been on-going for the last ten years, to determine if it would be more advantageous for the City to purchase suitable properties.	Implemented	Controller concurs it was implemented.



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June 2, 2008

Tony Royster, Interim General Manager
Department of General Services
Room 701 City Hall South
111 East First Street
Los Angeles, CA 90012

Dear Mr. Royster:

**SUBJECT: EVALUATION OF GSD'S RESPONSE TO THE FOLLOW-UP AUDIT OF
GSD'S ASSET MANAGEMENT DIVISION**

My Audit Division received your April 8, 2008, response to the "Follow-Up Audit of GSD's Asset Management Division". Your response indicates that GSD disagrees with the auditors' assessment of the implementation status of the prior audits' recommendations. You also state that GSD disagrees with the original audits' conclusion that the City lacked a strategic approach to asset management, pointing to the 1996 "Office Facilities Master Plan", considered to be a 20-year strategic plan.

The 1996 plan focuses primarily on the City's need for office space and not an overall strategy for asset management, and had already been in existence a good seven years at the time of the original performance audit. The primary finding of the 2003 audit was that GSD and City policymakers focused on individual real estate transactions, rather than through a consistent and effective asset management strategy. The audit recommended that GSD become a catalyst to change that approach, by proposing policies and generating consensus on overall strategies and policy directions, which would simplify the transactions and the process for their review and approval. Our current assessment indicates this issue remains "in progress", as the City continues to focus primarily on individual transactions.

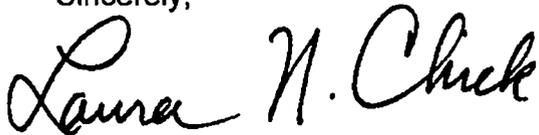
Your correspondence also presents GSD's own evaluation of the progress it has made, though acknowledges the audit's statement that "full implementation of the recommendations depend on the political will and action of the Mayor and Council".

Mr. Tony Royster, Interim General Manager
June 2, 2008
Page 2

The purpose of the Controller's audits, and subsequent follow-up reviews, is to present an independent assessment of City operations. Therefore, GSD's position on its own self-assessment is not relevant to the Follow-Up Audit process. As explained to your staff, auditors reviewed not only the steps taken by GSD, but assessed current operations to determine if a condition that was noted in the original audit still exists. Therefore, while we acknowledge that GSD has taken some action in several areas (such as developing policy papers, seeking broader transaction authority, attempting to coordinate data with Proprietary departments), the recommendation was not rated as "fully implemented" because of issues that may be outside of GSD's direct control.

However, as the entity responsible for managing the City's diverse real estate portfolio, I continue to challenge your Department to become the policy leader in this area. While formal decision-making ultimately resides with the Mayor and Council, elected officials should be guided by the City's capable appointed leadership who provide sound reasoning and focused direction towards the continual improvement of the operations under their purview.

Sincerely,

A handwritten signature in black ink that reads "Laura N. Chick". The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller



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March 5, 2008

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

Dear Mayor Villaraigosa, City Attorney Delgadillo, City Councilmembers:

Nearly five years ago I released an audit of the City's management of its real estate assets. We found it desperately lacking and in need of a vision and mandate in managing these valuable assets.

In the follow-up audit I release today, we found that while the Department has made some initial progress most of the recommendations have not been implemented. The most important recommendations such as a citywide strategy, centralized database and the maximization of surplus property all depend on the political will and action of the Mayor and Council.

Sincerely,

LAURA N. CHICK
City Controller

MAR 06 2008

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March 5, 2008

Alvin Y. Blain, General Manager and City Purchasing Agent
General Services Department
111 E. First Street, Room 701
Los Angeles, CA 90012

Dear Mr. Blain:

Enclosed is a report entitled "Follow-up Audit of GSD's Asset Management Division." A draft of this report was provided to you on February 22, 2008. Comments provided by your Department at the meeting held on March 3, 2008, were evaluated and considered prior to finalizing the report.

Please review the final report and advise the Controller's Office by April 8, 2008 of actions taken to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Karen L. Sisson, City Administrative Officer
Frank T. Martinez, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Sally Choi, Deputy Mayor, Office of the Mayor
Independent City Auditors



**City of Los Angeles
Office of the Controller**

**Follow-Up Audit of GSD's Asset
Management Division**

March 5, 2008

**Laura N. Chick
City Controller**

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FOLLOW-UP AUDIT OF GSD'S ASSET MANAGEMENT DIVISION

EXECUTIVE SUMMARY

The Department of General Services (GSD) Asset Management Division (AMD or Division) is responsible for managing the City's diverse real estate portfolio and ensuring optimum use and maximum value from these assets.

The City owns and leases real property worth billions of dollars that is used for diverse public purposes that includes office buildings, police and fire stations, libraries, public parks, open space, and maintenance facilities. AMD's responsibilities include:

- Maintaining an accurate inventory of the City's holdings;
- Developing a comprehensive twenty-year master plan of facilities' needs and updating the plan to maintain a continuous twenty-year facilities' needs projection;
- Consolidating City operations into joint-use facilities at locations where several departments with similar and compatible real estate or facility needs are serving a similar geographical area;
- Purchasing or leasing properties for the City, and providing input on the annual review of the capitalization of owned and leased properties for the City to identify lease renegotiation opportunities;
- Working with other governments and the private sector to accomplish the real estate needs of the City; and
- Managing the disposition of City property.

In 2003, the Controller's Office issued three reports related to GSD's asset management activities. The three audits contained 25 recommendations to improve the City's real property data, provide a strategy for managing the City's real estate and improve the surplus property program to expedite the potential use or sale of City-owned, Council-controlled parcels. The audit reports were:

- "Performance Audit of the Asset Management Division, General Services Department";
- "Financial and Compliance Audit of the Department of General Services Sale of Surplus Properties"; and
- "Financial and Compliance Audit of the Department of General Services Lease Expenditures."

The performance audit found that the City had no overarching vision or strategy for handling its real estate. Decisions were made on an ad-hoc, transactional basis. Subsequent to the audit, to assist the City in improving the management of its real estate portfolio, the City Controller contracted with KH Consulting to develop a vision for the effective management and use of the City's real estate assets. That report, "A Vision and Strategy for the City's Real Estate" was issued July 15, 2004 and provided a suggested approach of how to implement many of the recommendations made in the performance audit. By developing and using a vision and strategy to guide its decision-making, the City would have better assurance of effective and efficient asset management.

The Controller's Office has now conducted a follow-up audit to evaluate the adequacy and effectiveness of actions taken by GSD management relative to the findings and recommendations contained in the three audits issued in 2003. Our follow-up focused on 18 key recommendations that were ranked as urgent or necessary.

Summary

Our follow-up audit found that some progress has been made in the four plus years since the original reports were issued. We found the Department implemented 5 recommendations and partially implemented 13 recommendations:

Audit Report Title	Report Date	Implementation Status			% Impl.
		Impl.	Partially/ In Progress	Not Impl.	
Performance Audit of the Asset Management Division	8/20/03	1	7	0	13%
Financial and Compliance Audit of GSD's Sale of Surplus Properties	10/22/03	2	6	0	25%
Financial and Compliance Audit of GSD's Lease Expenditures	11/7/03	2			100%

In most cases, GSD took some initial steps to address the audit issues, but real improvements and change still require the Mayor's Office and City Council to re-examine and prioritize how the City should handle its real estate portfolio. In other cases, GSD needs to take additional steps to fully implement the recommendations. The key issues that remain outstanding encompass the following areas:

The City has not established an agreed-upon comprehensive strategy for determining how its real estate portfolio should be managed so that real property assets are optimized for the City's use and to benefit residents.

GSD has taken steps to develop a real estate strategy but in order to have a strategic framework to guide decision making, City leaders will need to provide further direction. Specifically, GSD is updating the 20-year Office Facilities Master Plan, issued in 1996,

to include the City's strategic vision and guiding principles for City real estate. The vision/strategy should set the framework to ensure the City's real estate assets are optimized. The Mayor and City Council will need to determine whether GSD's updated Master Plan meets the intent of the City's vision for managing its real estate.

Additionally, GSD developed policies related to surplus property and leasing to non-profit agencies – components of a real property strategy. The Department believes the policies reflect the direction that should be taken with the real estate portfolio. However, the City's leaders have yet to approve or revise the policies which would help define the City's strategy for its real estate portfolio.

Surplus property sales have not increased. The process is cumbersome, and since decisions are not driven by an overall Citywide vision, individual Council Offices can object to potential sales without full Council consideration.

In 2002, 9 properties were sold and it took an average of two and one-half years to process a sale. Selling surplus properties takes one to two years to complete; over the last three year period, GSD has sold an average of only nine properties annually.

The process to identify properties that can be sold is governed by State regulations, City Charter and the Los Angeles Administrative Code (LAAC). State regulations require surplus government land to first be considered for affordable housing development, park and recreation or open space purposes, or for planning and development near transit stations. GSD obtains input from the Departments of Housing, Recreation and Parks and Transportation when considering potential sales.

However, even when a property is released from those needs, Councilmembers are asked if there are objections to selling property within their district.

In October 2006, the Mayor's Office attempted to get each Councilmember to identify properties in their district that could be sold from a total of 257 parcels citywide. AMD management indicated that none of the Council Offices cleared the properties for sale. Some of the reasons Councilmembers gave for "reserving" properties included the desire to work with developers to utilize the land to benefit the District's residents or questionable marketability of hillside properties.

If the intent of City officials is to dispose of properties that are not earmarked for affordable housing, recreation or transit needs, the City must prioritize the process, re-consider some of the individual programs proposed by GSD, and re-consider reserving properties for potential development. If the intent is to hold onto properties for future development initiated by a Council Office, there should be some indication of developers' interest or timeframe for doing so.

Additionally, while AMD has reduced the number of steps in its surplus property sales procedures, timeframes can be shortened by staff following up with City departments or taking the next step in the process on a more timely basis.

A Citywide database of all properties does not exist.

Multiple databases are used to manage the City's real property assets – some within AMD and others within each of the three Proprietary Departments. Information is still maintained in separate, incompatible systems. Property managed by DWP, Airports and Harbor departments is subject to Public Utilities Commission (PUC), federal and State regulations, and as such restrict the City's ability to take any action on the property. GSD management stated that the City Charter prohibits the Department from managing the Proprietary departments' properties. We also noted incomplete and inaccurate information for City Council-controlled surplus property. An accurate property database is necessary for the effective management of real property assets and is imperative to facilitate focused, effective decision-making. Due to the lack of a comprehensive system and regular reporting, complete citywide information is not readily available.

Details on these and other prior recommendations that have not been fully implemented are discussed in the remainder of this report. Attachments 1 through 3 provide a listing of each of the 18 recommendations along with their current status as assessed by our review.

Review of Report

On February 13, 2008, a draft report was provided to GSD management. We held exit conferences with GSD management on February 19, and March 3, 2008. GSD indicated that with the exception of obtaining funding for a separate planning and reporting unit, the Department has addressed each of the recommendations and taken all the steps within their authority to fully implement the recommendations. The Department's comments were considered before finalizing the report.

INTRODUCTION AND BACKGROUND

The Department of General Services (GSD) Asset Management Division (AMD) is responsible for managing the City's diverse real estate portfolio and ensuring maximum value and optimum use from each of these assets for the City's operations.

The City owns and leases real property worth billions of dollars that is used for diverse purposes. These include office buildings, police stations, fire stations, libraries, public parks, open space, and maintenance facilities. AMD's responsibilities include:

- Maintaining an accurate inventory of the City's holdings;
- Developing a comprehensive twenty-year master plan of facilities' needs and updating the plan every five years to maintain a continuous twenty-year facilities' needs projection;
- Consolidating City operations into joint-use facilities at locations where several departments with similar and compatible real estate or facility needs are serving a similar geographical area;
- Purchasing or leasing properties for the City, and providing input on the annual review of the capitalization of owned and leased properties for the City to identify lease renegotiation opportunities;
- Working with other governments and the private sector to accomplish the real estate needs of the City; and
- Managing the disposition of City property.

AMD is staffed by 33 positions organized into four sections:

Real estate services handles real property acquisitions, title services to determine ownership, appraisal services to determine value, negotiation with property ownership, and relocation of residential owners and tenants, and business and non-profit organizations on City acquired property.

Leasing/property management handles the leasing of City-owned facilities as well as public and private facilities for City purposes, manages all lease negotiations, and manages the disposition of City property.

Tenant services reviews City department requests for additional space requirements, determines the funds needed to cover the costs associated with the new space requested, and initiates the site selection process.

Portfolio management maintains the Building Book listing all City-owned, Council-controlled facilities, the Asset Management System (a database of facility drawings, photos, etc.), and the automated utility bill payment and consumption analysis system.

In 2003, the Controller's Office issued three reports related to GSD's asset management activities.

- *The Performance Audit of the Asset Management Division, General Services Department* issued August 20, 2003, examined AMD's activities in managing the City's real properties. The audit contained 14 recommendations.
- *The Financial and Compliance Audit of the Department of General Services Sale of Surplus Properties* issued October 22, 2003 examined AMD's compliance with the City's rules for the sale of surplus properties. The audit contained nine recommendations.
- *The Financial and Compliance Audit of the Department of General Services Lease Expenditures* issued November 7, 2003 reported on GSD's actions in response to a Council motion regarding a parking lot lease. The audit contained two recommendations

The audits disclosed that the City lacked a strategy to guide asset management decisions. There were no broad guiding principles to guide decisions such as when to lease, build or buy office space for City operations or how the Los Angeles Mall or surplus property could be used to optimize the City's revenues or benefit the public. It was also noted that the City did not have a complete inventory of its real estate portfolio. Lastly, AMD's procedures for selling surplus properties were time-consuming and not all surplus property was identified. The audits included a total of 25 recommendations to develop a strategy for managing the City's real estate, improve the City's real property data, and expedite the potential use or sale of City-owned, Council-controlled parcels.

Subsequent to the Performance Audit of AMD, the Controller's Office contracted with KH Consulting to assist the City in developing a strategy for effective management and use of the City's real estate assets. The report, "A Vision and Strategy for the City's Real Estate" was issued July 15, 2004. The overall intent of this report was to assist City leaders in establishing a new approach to promote better decision-making, streamline the implementation of strategic decisions, improve the maintenance of City properties, and ensure the effective use of the City's real estate assets.

Scope, Objective and Methodology

The objective of this follow-up review was to evaluate the adequacy and effectiveness of actions taken by management relative to the findings and recommendations noted in the three prior audits. We focused our review on the 18 recommendations that were ranked as either urgent or necessary. Our audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from fiscal years 2003-04 through 2006-07. In performing our audit, we interviewed AMD management and staff; observed procedures; reviewed applicable regulations, policies

and procedures; and tested a small sample of surplus sales transactions. Fieldwork was conducted from October 2007 through January 2008.

We determined that GSD has fully implemented 5 recommendations. We determined the remaining 13 recommendations are partially implemented or in progress. The following sections discuss the audit areas with recommendations that are not fully implemented. Attachments 1 through 3 provide a listing of each of the 18 recommendations evaluated, along with the status of each recommendation. In evaluating management's actions, we also considered how GSD utilized the suggestions from the Vision and Strategy report to improve the management of the City's real estate assets.

SECTION I: ASSET MANAGEMENT DIVISION PERFORMANCE

GSD's Asset Management Division is responsible for managing the City's real estate assets to ensure that they are utilized in a way to maximize the net value of the City's real estate portfolio. AMD buys, sells and leases City property, including determining when it is cost effective to lease, build or buy space for City operations. AMD also acts as the City's landlord and negotiates leases with outside organizations to use City owned-facilities.

The 2003 audit found that AMD adequately handled individual real estate transactions but did not focus on the broader strategic perspective of managing the City's real estate assets.

Our follow-up audit found that the City still lacks an overall strategy for managing the City's real estate assets which would facilitate decision making by City leaders and enable AMD to be more effective in carrying out its responsibilities.

Prior Recommendation #1: AMD should develop option papers addressing financial, operational and policy implications for Municipal Facilities Commission (MFC), Mayoral and City Council consideration that facilitate coherent, planned decisions.

- a. These option papers should address, as a start, overall City Real Property Portfolio Composition, Mall Marketing and Operations, and a strategy for Surplus Property disposal.**
- b. AMD should work with the MFC, Mayor and the City Council to generate consensus on the overall strategies or policy directions, and use them as guidance for planning and prioritizing its work.**

Current Status: In Progress

The 2003 audit revealed that AMD's asset management approach was geared toward handling individual transactions related to property acquisition, sales, leases, etc. Concentrating on specific procedures to be followed lessened its ability to focus on policy and strategy development. The audit noted that AMD did not assert itself effectively into the policy-making process, except as individual transactions are proposed.

While AMD is responsible for managing the City's real estate portfolio, ultimate decision-making rests with the Mayor and City Council. The Vision and Strategy report identified that City leaders made decisions as individual property transactions occurred and not in the context of an overall strategy. In order to effectively administer its real

property assets, the report recommended that the City adopt an overall strategy and policy direction, addressing four key areas:

1. Establish guiding principles for property decisions supported by the Mayor and City Council;
2. Implement a strategic property management approach to City-owned real property;
3. Focus elected City decision makers on real property strategic and policy issues; and
4. Maximize financial value of or return on properties.

The intent of the prior audit recommendations and the Vision and Strategy report was to urge AMD to take the lead in creating a City strategy that would guide City leadership in making decisions about acquiring, disposing and maintaining real property assets. While AMD has taken steps to address the recommendations, the City still does not have agreed-upon guiding principles that would constitute a comprehensive real property strategy.

According to GSD management, the March 1996 Office Facilities Master Plan serves as the City's 20-year real estate strategy. The Master Plan sets the guiding principles for ensuring the City occupies space that supports providing municipal services and houses City employees effectively to the benefit of the City's constituents. The Master Plan also identified the need for a property database to track the City's vacant and occupied office space; provided a methodology for defining the City's office space needs; established the basis for lease versus ownership analysis; and recommended short and long-term solutions for meeting space requirements. The Master Plan helps guide GSD's and the City's decisions for managing municipal facilities valued at over \$1 billion.

In 2002, GSD management proposed a five-year plan to restore the integrity of the Los Angeles Mall as a City asset and address the viability of the Mall and its tenants. GSD sought funding to address deferred maintenance needs and to obtain a management/market analysis to improve Mall operations. Funding was not approved. GSD indicated that the Department does not have authority or control over the Los Angeles Mall; City leadership determines how the Mall will be utilized.

While the Office Facilities Master Plan contains a detailed approach to guiding decisions for determining facility needs for City services and staff, it includes little discussion related to other components of the City's real estate portfolio – surplus properties and the Los Angeles Mall. For example, in the 70+ page Master Plan document, there are three sentences discussing surplus properties, which recommend that surplus properties "should be identified and included in the property database and managed or sold as part of the overall portfolio management effort." Additionally, except for

considering the Los Angeles Mall as viable office space for City services, there is no discussion of a long-term strategy for the Mall.

GSD management indicated that the Master Plan is currently being updated and will include the City's strategic vision and guiding principles for City real estate, including an updated Los Angeles Mall Marketing and Operations Plan and Surplus Property Disposition Policy and Plan. However, it was not available for auditors' review. GSD intends to complete the draft in March 2008.

Since the 2003 audit, AMD developed several policies, namely, a Comprehensive Policy on Real Estate Acquisitions, Leasing and Disposal of City Property and a Non-profit Leasing Policy for City leaders to consider as decision-making guidelines. However, the policies lack City approval which would help to demonstrate the direction City leaders want to take.

Barriers to Implementation

Complete implementation of this recommendation requires City leadership to reach a consensus on the strategy for managing the City's real estate portfolio.

Prior Recommendation #6: AMD should prepare annual and quarterly reports of the status of real property management for submission to the MFC.

Current Status: Partially Implemented

The 2003 audit noted that AMD did not prepare or review regular reports indicating, at a minimum, the status of: expiring leases and lease concentration, month-to-month leases, including the estimated net cost to the City of continuing the leases, owned building deferred maintenance, and the status of non-profit leases.

AMD management indicated they work closely with the Mayor's Office, Council Committees, MFC and the Chief Legislative Analyst (CLA) on lease expenditures, surplus property, property acquisition, deferred maintenance and other policy issues.

We also found that AMD prepares some periodic reports to the MFC or Office of the City Administrative Officer (CAO) relative to the City's lease expenditures, and revenue from leased and sold properties. However, these individual reports do not provide an overall picture of the City's real estate portfolio, such as the status of the surplus property inventory, status of expiring leases, City-owned building deferred maintenance, etc. It is important that the City's decision-makers, starting with the MFC, are regularly updated on the entire real estate portfolio so that decisions can be made in the context of the portfolio and the strategic framework. An overall status of property management efforts will also help ensure AMD's efforts are aligned with its goals and the City's vision and strategy. According to GSD, the MFC does not want numerous reports with exhaustive details.

Prior Recommendation #8: AMD should set up a separate unit to handle planning and reporting functions.

Current Status: Partially Implemented

The 2003 audit noted that AMD staff devoted time to managing transactions while little time was spent on planning and strategic development. Strategic planning is critical for effective asset management and requires the commitment of staff time. To help ensure AMD could meet that commitment, the audit recommended AMD establish a separate planning and reporting unit.

During the FY 2004-05 budget cycle, AMD requested funding to staff a dedicated Planning Section to address this and other key recommendations. However, the requested budget increase was not approved. As a result, AMD continues to address the audit's findings with their existing resources. An informal planning group comprised of the Division's Director, Deputy Director, and Section Managers meets bi-weekly to discuss AMD operations. In addition, AMD utilizes professional consultants for specific tasks, such as benchmarking projects, market studies, cost benefit analyses and advisory services. Since the initial effort, AMD has not formally requested additional resources to create new sections or augment existing staff.

AMD's efforts to use existing staff, who have operational responsibilities, for planning has not resulted in a City vision and strategy for managing real estate assets or regular distribution of comprehensive, informative reports on the overall status of the City's real estate. If the City does not support funding a separate planning and reporting unit, AMD should create an alternative way to build on the suggestions made in the Vision and Strategy report, to provide the City with a comprehensive plan for asset management, and regularly report on the status of their efforts.

Prior Recommendation #9: AMD should seek broader transaction authority in conjunction with a redesign of its processes, starting with surplus property disposal.

Current Status: Partially Implemented

The 2003 audit revealed that the City's asset management processes were complex and time-consuming, involved more decision-makers than just AMD, and lacked formally defined procedures and direction. The audit recommended that AMD seek broader transaction authority, and re-design its processes, starting with surplus property disposal.

We found that AMD took steps to implement the recommendation. For example, in 2005, AMD proposed the "Own a Piece of LA" program to expedite the disposal of surplus properties that are classified as "sliver" or "remnant" parcels by selling them to adjacent property owners. In November 2007, the Mayor's Office directed GSD to

proceed with the program. However, MFC and City Council approval are still needed. Since this program has not been given final approval by all necessary parties, the intent of the recommendation has not been fully implemented.

AMD also developed the Surplus Property Disposition Program to identify potential use and/or sale of Council-controlled surplus properties, "blocker lots" and sliver/remnant parcels. The intent of the program was to obtain blanket authority to sell Council-Controlled surplus property and eliminate the need for individual Council actions for each parcel proposed for sale. All identified surplus properties would be grouped together in one Council motion to obtain sales authority. Mayor's Office staff indicated support for the program but it was not approved by the City Council. AMD management indicated that there is a lack of support from the Information Technology and General Services Committee Chair (ITGS), MFC Chair and other City department general managers to give sole authority to AMD to determine the disposition of surplus properties. None of these parties, who are currently part of the decision-making process, wanted to restrict their ability to approve or deny the disposal of any Council-controlled surplus property.

The 2004 Vision and Strategy report highlighted the need for elected policymakers to focus on real property strategic and policy issues. By establishing the City's framework for managing real estate, City leaders could delegate certain transaction decisions to AMD. Specific policies should be proposed and formally approved to further establish the intent of policymakers and ensure that AMD carries out their delegated authority as intended.

Overall, time-consuming reviews still exist, and property disposition decisions must be cleared through multiple channels - City departments, City Attorney, Municipal Facilities Committee (MFC), Information Technology and General Services Committee (ITGS), Mayor's Office and City Council. We noted that sales of surplus properties that occurred in FYs 2005-2007 took one to two years to complete.

Barriers to Implementation

As noted, AMD has made attempts to implement this recommendation. However, implementation is contingent on City leadership giving more authority to GSD to proceed with certain real property transactions, such as surplus property disposal. Until the City allows GSD more discretion in carrying out its responsibilities, this recommendation will not be fully implemented.

Prior Recommendation #10: AMD should continue to work with other GSD units and the Proprietary departments to establish a citywide database of properties.

Current Status: Partially Implemented

The 2003 audit recommended that AMD work with other GSD units and the Proprietary Departments (Los Angeles World Airports, Harbor, and Department of Water and Power) to obtain information on all City-owned property and maintain the information in

a comprehensive database. The Vision and Strategy report also cited the need for a complete citywide property database to facilitate planning, maintenance and operational decisions.

A citywide database still does not exist and efforts to develop and implement such a system have been temporarily discontinued.

GSD received property information from the Proprietary Departments beginning in 2003 to 2005. However, the data was incomplete as it lacked sufficient information to clearly identify the property for AMD's needs. As a result, GSD did not add any of the information into its existing database. According to AMD management, a considerable amount of staff time would be required to research and determine what information is necessary to complete the database. Due to insufficient resources to complete this work, no further steps were taken. GSD management also indicated that property managed by DWP, Airports and Harbor is not under the control of the City but controlled by the PUC, FAA, and State Tidelands Act, respectively. Therefore, including this property in a citywide database would not facilitate real property asset management decisions that are under the purview of the Mayor and City Council. Each Proprietary department could provide information from their separately maintained databases. Further, GSD management does not agree that Proprietary Departments' properties should be included in the database since the Charter restricts authority over these properties to the respective Proprietary Department.

GSD implemented a new Building Management System (BMS) for Building Maintenance. Implementation of Phase II of this project will include the Construction Forces and the Asset Management Divisions. BMS is intended to include a comprehensive inventory of City-owned properties and consolidate most information currently maintained by separate units within GSD and other City departments.

The intent of the recommendation was to ensure the City had ready access to all City real estate. It was noted that ad hoc reports requested by City Council related to the Proprietary Departments' property required extensive work to consolidate information. A single, comprehensive source for the City's real estate inventory could allow for informative reports to be routinely generated for City officials. The 1996 Office Facilities Master Plan also cited the preference for a Citywide property database that included the Proprietary Departments' property.

Barriers to Implementation

Meeting the intent of the recommendation requires the Proprietary Departments to have compatible information systems with GSD so that data can be readily transferred. An alternative solution requires significant staff time of GSD and the Proprietary Departments to resolve data problems with previously provided information.

Prior Recommendation #11: AMD supervisory staff should monitor security of the Lease Information System by designing and reviewing a chronological report or log of all changes to the system that affect payments to landlords.

Current Status: Partially Implemented

AMD's Lease Information System (LIS) maintains information on all the City's leases, both where the City is the landlord or tenant. The database is password protected. However, the prior audit noted there are many users who can make any change to LIS and there were no logs of data changes to help monitor whether the changes were appropriate and authorized. In addition to data security issues, the prior audit also noted that the database was incomplete. Leases with non-profit organizations where no rent was charged were not included in LIS.

We found that payment and billing data on LIS are only accessible by AMD's Accounting Clerk, and all staff that make changes to LIS are required to enter their name and the date the revision was made. However, LIS cannot generate a report of all data changes to facilitate management's review for appropriateness and there is no manual log used as an alternative control to track all data changes. AMD management stated that LIS has separate manual logs, however, we noted that the logs contain information only related to payment activity and do not record all data changes that made to LIS.

LIS does not include non-profit leases or other real property leases that are managed by other City departments. For example, LIS does not contain information for leases under the purview of the Community Development Department (CDD), Cultural Affairs Department, Recreation and Parks, El Pueblo, and the Proprietary Departments. AMD management indicated that non-profit leases have specialized terms and conditions and should not be part of LIS data. Maintaining a separate database for non-profit leases is acceptable; however, AMD should pursue obtaining lease information from other City departments to ensure LIS is a complete database of the City's leases.

Prior Recommendation #12: AMD should develop additional outcome-based and process time measurements to improve workload management and staff productivity.

Current Status: Partially Implemented

The 2003 audit revealed that AMD measured performance through workload indicators rather than expected outcomes. The workload indicators were limited in scope and not helpful in assessing process effectiveness or managing and prioritizing work.

AMD Section Managers use biweekly status reports to monitor staff activities. These reports provide a current status of assigned tasks and related due dates, to help manage workload and staff productivity.

According to AMD's Director, it is difficult to measure or quantify the amount of time needed to conduct and complete a particular process (i.e., lease negotiation, surplus property sales, property acquisitions, etc.). He stated that AMD's processes are very fluid and vary for each task and project, which affects time requirements. He believes AMD has developed and implemented sufficient outcome-based and process time measurements.

Outcome-based measurements should be driven by the City's overall strategy for real estate management, which would clearly identify the City's priorities and define AMD's goals. For example, if an agreed-upon citywide strategy was to dispose of all surplus property, an outcome measure would be to reduce the inventory by a certain percentage annually. However, without an agreed upon citywide real estate strategy for surplus property, it is difficult for AMD to establish a plan to meet specific goals.

SECTION II: SALE OF SURPLUS PROPERTIES

Surplus Property is excess property formally designated by the City Council as real estate that is no longer required for City or public use, and can be sold subject to the limitations prescribed in the City Charter and Administrative Code¹. Real property must go through several clearance and approval processes even before the City Council considers a surplus designation. These include verifying City ownership, sending written notification to other governmental entities, obtaining an appraisal, obtaining approval from the Bureau of Engineering, Planning Department and CAO. Surplus properties are disposed of either through direct sale or public auction. The responsibility of selling surplus properties rests with AMD.

Our follow-up audit found that the sale of surplus properties identified as “marketable” is not aggressively pursued. GSD lacks complete and accurate information of its surplus property inventory and required processes, while streamlined, take one to two years to complete the sales. The surplus property sales process continues to require a great amount of time for interdepartmental coordination, clearance and approval of transactions, and obtaining the many approvals from various City decision-makers. Overall, it is still a very cumbersome and lengthy process.

Prior Recommendation #1: GSD should identify and prioritize the City’s vacant properties that are marketable and aggressively initiate a program to pursue their sale.

Current Status: Partially implemented

The 2003 audit noted that GSD had sold only nine properties during FY 2001-02 for \$3.6 million. The audit concluded that GSD had not identified or prioritized marketable surplus properties and did not aggressively pursue their sale.

Our follow-up audit found that GSD has identified marketable surplus properties and has taken some steps to prioritize the sales. GSD has identified which parcels are candidates for affordable housing, open space, parks, commercial development, slivers and remnants, and blocker lots. In compliance with State Code², surplus properties must first be considered for affordable housing, recreation and parks, open space, or for planning development near transit stations. Properties that are not identified for those purposes are prioritized by AMD as either General Fund or Special Fund. General Fund surplus properties that have not been reserved by a Council Office are given the highest priority for sale to assist in providing immediate revenue to the General Fund.

¹ Section 385 of the City Charter and Division 7, Chapter 1, Article 4 of the Los Angeles Administrative Code outline the provisions for the sale of the City’s surplus real property.

² California Government Code Sections 54220-54232.

For General Fund properties, the Los Angeles Administrative Code stipulates that 50% of the net sales proceeds be deposited in the applicable Council District Real Property Trust Fund while the remaining 50% is deposited into the General Fund.³ For properties that were acquired using special funds such as Gas Tax, Special Parking Revenue Trust Fund, etc., sales proceeds must be repaid to those sources. Beyond prioritizing all General Fund properties, AMD has not further defined the order of sale for prioritized properties.

AMD's marketing efforts for selling surplus property depend on the method of disposition – either through public auction or direct sale. Direct sales are only available to the adjoining property owner (whose property shares a common boundary with the City parcel being sold). AMD does not need to market the property since the buyer is already known. For public auctions, AMD advertises the sale in local newspapers and on the City's website, and also conducts "Open House" events for potential buyers.

The prior audit noted that GSD had sold 9 properties for \$3.6 million during one fiscal year. Since then, there has been little increase in the number of annual sales, as shown in the Table below based on GSD's reports.

Fiscal Year	Actual # of Properties Sold	Total Net Proceeds⁴	Net Proceeds - General Fund⁵	Net Proceeds - Council District⁵	Net Proceeds - Special Fund
2004-2005	10	\$ 2,881,234	\$ 25,042	\$ 22,542	\$ 2,833,650
2005-2006	5	\$ 5,214,626	\$ 120,626	\$ 94,000	\$ 5,000,000
2006-2007	12	\$ 2,479,113	\$ 879,182	\$ 879,182	\$ 1,447,393 ⁶
Grand Total	27	\$10,574,973	\$ 1,024,850	\$ 995,724	\$ 9,281,043

If the number of surplus property sales continues at this average rate, it would take approximately 35 years to sell the 315 properties currently identified as surplus for the General Fund and Special Funds.

According to GSD management, the Surplus Property Disposition Plan, which is pending Mayor and City Council approval, will enable the AMD to sell all marketable properties in the City's database within 3 years.

Designing and implementing an aggressive surplus sales program requires support by the City Council. In October 2006, the Mayor's Office attempted to get each Councilmember to identify properties located in their district that could be sold from a total of 257 parcels Citywide. AMD management indicated that none of the Council

³ Except 100% of the net proceeds for property located in the Venice area are deposited into the Venice Area Surplus Real Property Trust Fund.

⁴ Total Net Proceeds = Amount collected less 3rd party cost of sale

⁵ Net proceeds to General Fund & Council District are generally split 50-50.

⁶ Includes one property valued at \$790,000 that was a grant deed conveyance.

Offices cleared the properties for sale. Per AMD, some of the reasons noted by Councilmembers for “reserving” properties include needing additional time to consider how the properties could benefit their constituents. Some Councilmembers indicated there is a potential for working with developers to utilize the land to benefit the residents within their district, and some had questions about the marketability of hillside properties with potential liability issues.

The Mayor’s Office is currently working with some Council Offices to identify parcels that may be sold for open space. Setting aside these properties and foregoing the potential revenue does not require a formal written response from Councilmembers or formal Council action.

If the intent of City officials is to dispose of properties that are not earmarked for affordable housing, recreation and parks, or public transit needs, the City must prioritize the sales process, and re-consider reserving properties for potential development initiated by a Council Office. If the intent is to hold onto properties for future development, there should be some indication of developers’ interest or timeframe for doing so.

Barriers to Implementation

Complete implementation of this recommendation requires City leadership to reach a consensus on the strategy for managing the City’s real estate portfolio and formal approval of various items proposed to assist in expediting the disposition of surplus property, such as the Surplus Property Disposition Program and “Own a Piece of L.A.” Program.

Prior Recommendation #2: GSD should maintain complete and accurate information in its Surplus Property Inventory List, in order to manage said properties properly.

Current Status: Partially implemented

The 2003 audit disclosed that AMD’s Surplus Property Inventory List was inaccurate, and did not identify which properties are marketable or classified as remnants, sliver parcels, easements or properties considered to have insignificant dollar values.

Based on our review, the Comprehensive Updated Surplus List has errors or is missing information. Our review noted these examples:

- Sliver, remnants, and easements are not included on the Surplus List. According to AMD, these types of properties do not have significant dollar value, are not considered “marketable”, and are maintained on a separate property list.

- Assessor's Parcel Numbers (APN) were missing or incomplete for two surplus properties that were sold. According to GSD, the APN could be incomplete because the "property" is part of a street or is not an individual parcel.
- Sold properties were still listed on the inventory. We identified two surplus properties that sold in FY 2006-07, but were still listed on the Comprehensive Updated Surplus List as of October 2007, with no designation as having been sold.
- Formula errors in calculating the total appraised value of potential surplus properties by respective agency (LAHD, RAP, and Council District) by Council District. There are also formula errors in calculating the total appraised values for "Reserved", "Rejected", and "Undecided" properties by Council District.
- Inconsistencies in identifying potential surplus properties as "reserved". GSD maintains a complete listing of all potential surplus property and subsidiary lists of properties reserved by LAHD, RAP, and Council Districts 5 and 11. There are also subsidiary lists for General Fund properties and unreserved properties, which would include General Fund and Special Fund parcels. In one case, a property was noted as reserved on the complete listing but was also included on the unreserved property list. We noted two other properties that were noted as reserved by LAHD and RAP but neither property appeared on the respective reserved lists.

In addition, our detailed testwork on five surplus property sales that occurred in FY 2006-07 for General Fund properties found that for two of the sales, the 50% allocation of net proceeds were credited to the wrong Council District Real Property Trust Fund. The errors were subsequently corrected; however, this finding identified a weakness in confirming that accounting documents and entries are prepared correctly.

To ensure that the surplus property information is complete and accurate and to promote proper oversight and effective management of surplus properties, supervisory reviews should be documented and completed on a consistent, timely basis. Actions should be taken immediately to identify and correct any discrepancies noted.

Prior Recommendation #4b: GSD should review and evaluate the required processes on the sale of surplus properties. If necessary, streamline processes so that the sale of surplus properties can be completed more efficiently and in a timely manner.

Current Status: Partially implemented

Prior Recommendation #4c: GSD should increase its efforts to coordinate and follow-up on the clearance processes with involved City departments, such as the

Bureau of Engineering and Planning Department, to minimize delays on the sale of surplus properties.

Current Status: Partially implemented

Prior Recommendation #4d: GSD should attempt to process and complete the sale of surplus properties in a timely manner. This would ensure timely availability of additional revenues for city programs and projects.

Current Status: Partially implemented

The 2003 audit revealed that surplus property sales were not processed and completed efficiently and timely, and therefore delayed the availability of additional revenues for City programs. Sales took two and one-half years from start to final disposition.

Our follow-up audit noted that surplus property sales processes were reviewed by GSD, along with the Mayor's Office, approximately two years ago. Streamlining improvements that were considered included creating and establishing a monetary threshold where GSD would not be required to request City Council approval for sales. The City's Administrative Code was reviewed to determine whether any changes could be made, but during informal discussions, Councilmembers indicated they preferred to review and approve all surplus property sales, regardless of a property's monetary value.

GSD indicated the surplus property sales process has been streamlined from 32 to 18 steps. Our testwork found that the timeframe for sales was one to two years. We found there are still opportunities for AMD to reduce the time it takes to complete a surplus sale. In one example, an adjacent property owner expressed interest in a property, but three months went by before AMD requested the environmental clearance from the City's Bureau of Engineering (BOE). AMD indicated that the three-month delay was due to awaiting the property being vacated by the City. This was not documented on the Surplus Property Checklist. In this same case, another seven months lapsed between BOE's report and AMD requesting comments and recommendations from the City's Planning Department. AMD indicated that assigned staff had extended sick leave and they were short staffed during this time which resulted in some time lags.

In another example, approximately four months lapsed between the receipt of a BOE environmental clearance report and AMD requesting comments and recommendations from the City's Planning Department. An assessor parcel map and environmental clearance report are normally submitted with AMD's written request to the Planning Department for comments and recommendations. AMD had both documents already available, so there was no reason to delay submitting the request to the Planning Department.

AMD uses a Surplus Property Checklist to document each step to be accomplished in the sales process, along with the dates completed. We noted that some of the

checklists were incomplete. Also, the procedures are numbered, but do not reflect the sequence of events/steps that need to be followed. The Checklist can be improved by organizing the steps to follow the appropriate process order. Management should also ensure the checklists are filled out completely. These tools would then help identify where time lags are occurring and prompt corrective actions.

Prior Recommendation #4e: Develop formal written policies and procedures on the sale of surplus properties, which would serve as a guideline and provide consistency in processing the sale of surplus properties.

Current Status: Partially implemented

The 2003 audit found that GSD lacked formal written policies and procedures for processing surplus property sales. GSD staff did not have guidelines for conducting day-to-day operations, and therefore GSD's processing of surplus property sales may not have been consistent with the controls that management intended or expected.

We noted that various policies and procedures have been developed and approved or are currently awaiting approval. Examples of policies and guidelines include the following:

- Surplus Property Sale Procedures Checklist used for Direct Sale, Adjoining Owner Auction, Public Auction;
- "Own a Piece of LA" Program;
- Comprehensive Policy on Real Estate Acquisitions, Leasing, and Disposal of City Property; and,
- Mayor's Executive Directive GU-1 - City-owned Surplus Property Policy

Other program and policy guidelines have been developed and are awaiting MFC and Council approval as noted in Section I.

AMD utilizes their Surplus Property Sale Procedures Checklist as their guide in conducting day-to-day operations in processing surplus property sales and periodically utilizes this checklist to train new staff. Although the procedures on the Surplus Property Sale Procedures Checklist are numbered, it does not reflect the sequence of events that need to be followed or the order in which procedures are actually performed. AMD management indicated that the sequence of procedures may change given a particular property.

The lack of developing and incorporating formal, written, policies and procedures into AMD's daily operations creates the potential for management's intent and expectations

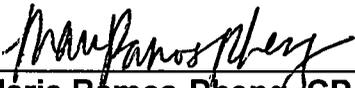
(controls, objectives, goals, etc.) to be miscommunicated and misunderstood by AMD staff and result in inconsistencies in the processing of surplus property sales.

Once policies and procedures are approved, GSD should incorporate the documents into an organized, comprehensive policies and procedures manual. The manual should be readily accessible by AMD staff and utilized as a guideline in conducting daily responsibilities to ensure consistency in processing surplus property sales.

Barriers to Implementation

Complete implementation of this recommendation requires GSD to establish consensus with and obtain formal approval from the MFC, Mayor and City Council, to ensure consistency with the City's overall vision and strategy for real property asset management.

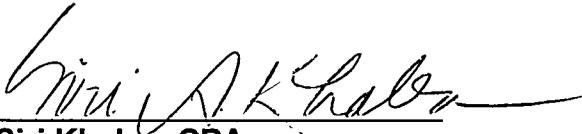
Respectfully submitted,



Maria Ramos-Pheng, CPA
Internal Auditor II



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Director of Auditing

ATTACHMENT 1

ASSET MANAGEMENT DIVISION PERFORMANCE IMPLEMENTATION STATUS

Reco.	Recommendation	Status	Auditor's Evaluation
1	<p>AMD should develop option papers addressing financial, operational and policy implications for MFC, Mayoral and City Council consideration that facilitate coherent, planned decisions.</p> <p>These papers should address, as a start, overall City Real Property Portfolio Composition, Mall Marketing and Operations, and a strategy for Surplus Property disposal.</p> <p>AMD should work with the MFC, Mayor and the City Council to generate consensus on the overall strategies or policy directions, and use them as guidance for planning and prioritizing its work.</p>	In progress	The City has not developed an agreed upon vision and strategy for decision-making, planning and prioritizing their efforts for managing the City's assets. However, GSD is updating the 1996 Office Facilities Master Plan which will include a proposed vision and strategy for real property asset management including an updated Mall Operations and Marketing Plan. AMD also developed several policies since 2003: Comprehensive Policy on Real Estate Acquisitions, Leasing and Disposal of City Property and a Non-profit Leasing Policy. The policies require Mayor and City Council approval.
3	AMD should propose an extension of the reach of the policy regarding leasing to non-profit organizations to cover all non-profit tenants in the City.	Implemented	AMD developed and proposed an amended non-profit leasing policy to City Council for review and approval.
6	AMD should prepare annual and quarterly reports of the status of real property management for submission to the MFC.	Partially implemented	AMD prepares some periodic reports although the reports do not specifically address the overall status of real property management.
8	AMD should set up a separate unit to handle planning and reporting functions.	Partially implemented	AMD requested a budget increase during FY2004-05 which was not approved. AMD continues to operate with existing limited resources. An overall asset management strategy has not been adopted by the City and comprehensive, informative reports are not available.
9	AMD should seek broader transaction authority in conjunction with a redesign of its processes, starting with surplus property disposal.	Partially implemented	AMD sought broader authority. However, time-consuming reviews still exist and decisions must continue to be cleared through multiple channels.
10	AMD should continue to work with other GSD units and the Proprietary departments to establish a citywide database of properties.	Partially implemented	Data and system compatibility issues prevented merging of Proprietary departments' property information with GSD's system.
11	AMD supervisory staff should monitor security of LIS by designing and reviewing a chronological report or log of all changes to the system that affect payments to landlords.	Partially implemented	Changes affecting payment activity are reported. However, no reports have been designed or implemented to assist in monitoring system security for all data changes.
12	AMD should develop additional outcome-based and process time measurements to improve workload management and staff productivity.	Partially implemented	Performance measurements have been developed to monitor workload and productivity. However, outcome measures need to be driven by an agreed upon Citywide vision and strategy.

SALE OF SURPLUS PROPERTIES IMPLEMENTATION STATUS

<u>Reco.</u>	<u>Recommendation</u>	<u>Status</u>	<u>Auditor's Evaluation</u>
1	Identify and prioritize the City's vacant properties that are marketable and aggressively initiate a program to pursue their sale.	Partially implemented	AMD has identified and partially prioritized surplus properties. An aggressive sales program requires support from City leaders.
2	GSD should maintain complete and accurate information in its Surplus Property Inventory List, in order to manage said properties properly.	Partially implemented	AMD's Surplus Property Inventory Lists has some incomplete and inaccurate data.
3	GSD should provide adequate oversight to ensure compliance with provisions of Administrative Code 7.22(d), the requirement to obtain CAO's review and recommendation on the propriety of the direct sale of surplus properties.	Implemented	Surplus property sales files reviewed during testwork met the provisions of Admin. Code 7.22(d). CAO review and recommendation was obtained for the proposed direct sales of City-owned property.
4a	GSD should provide adequate oversight to ensure that current and/or updated appraisal reports are obtained prior to the sale of surplus properties to protect the City's best interests.	Implemented	Three surplus property sales sampled from fiscal years 2004-2007 included documentation of updated appraisal reports; these reports were obtained prior to the actual sale.
4b	GSD should review and evaluate the required processes on the sale of surplus properties. If necessary, streamline processes so that the sale of surplus properties can be completed more efficiently and in a timely manner.	Partially implemented	Surplus property sales processes were reviewed by GSD and steps were simplified. However, surplus sales are still not completed in a timely manner. We noted examples of time lags between AMD actions that added to the overall time to complete sales.
4c	GSD should increase its efforts to coordinate and follow-up on the clearance processes with involved City departments, such as the Bureau of Engineering and Planning Department, to minimize delays on the sale of surplus properties.	Partially implemented	Surplus property sales sampled from fiscal years 2005-2007 demonstrated that it takes 1 to 2 years for completion. We noted time lags between AMD actions.
4d	GSD should attempt to process and complete the sale of surplus properties in a timely manner. This would ensure timely availability of additional revenues for city programs and projects.	Partially implemented	Surplus property sales sampled from fiscal years 2005-2007 demonstrated that it takes 1 to 2 years for completion. Time lags were noted in AMD staff taking action.
4e	GSD should develop formal written policies and procedures on the sale of surplus properties, which would serve as a guideline and provide consistency in processing the sale of surplus properties.	Partially implemented	Various policies and procedures have been developed and approved or are currently awaiting approval. Other program and policy guidelines are awaiting MFC and Council approval.

LEASE EXPENDITURES IMPLEMENTATION STATUS

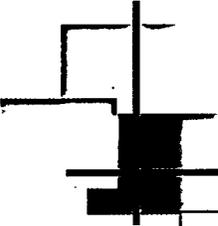
<i>Reco.</i>	<i>Recommendation</i>	<i>Status</i>	<i>Auditor's Evaluation</i>
1a.	GSD should conduct a survey of possible alternate locations for the parking lot that would meet the parking needs of the Asphalt I operations and negotiate a lease for another location	Implemented	AMD conducted a survey during 2004 of currently available replacement sites for equipment parking within a one-mile radius of the existing site. GSD determined there were no feasible sites in the area that would accommodate parking operations.
1b.	GSD should conduct feasibility studies on leases that have been on-going for the last ten years, to determine if it would be more advantageous for the City to purchase suitable properties.	Implemented	AMD has conducted various studies and analyses of leases that have been on-going for the last 10 years to include: (1) Strategic Office Facilities Plan (Lease vs. Buy Plan) (2) Civic Center Master Plan (3) Periodic reviews of existing leases (4) Property purchase of Figueroa Plaza and Public Works Building

City of Los Angeles: Developing a Strategic Approach to Real Estate

Presentation to the Committees on Audits and Governmental Efficiency and Information Technology and General Services

January 25, 2005

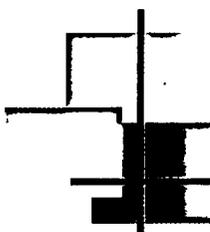
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Central Issue

Overly Transactional Focus:

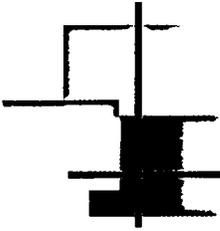
- No one is consistently and thoroughly considering policy direction.
- There is over-review of small and medium-size transactions.
- Sporadic review of key City real property issues occurs.



Why Bother to Change?

Realistic and efficient management of City real property can:

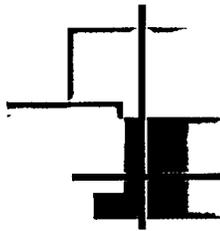
- Foster an economic renaissance in the community
- Establish important civic assets that are embraced by neighbors
- Form community and cultural hubs with parks, libraries, government service centers, meeting places, and accessible transportation
- Nurture a place where City workers can serve both the needs of the public and visitors with pride
- Leave a legacy for future generations to enjoy and value.



True Asset Management

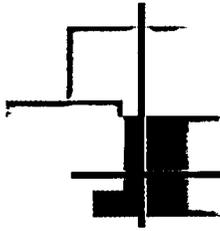
Some governments are adopting an Asset Management Model for their property management that:

- Views property as an asset that both requires investment and generates revenues.
- Develops a policy framework and consistent guidelines to assure that investment in property assets and property use maximize the value of that property to the City in terms of:
 - Dollar Value
 - Programmatic Value



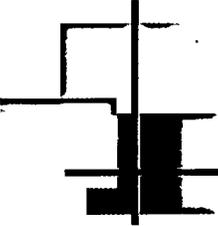
What to do...

- Establish guidelines for property decisions supported by Mayor and City Council*
- Implement Strategic Property Management approach to City-owned property, including:*
 - Five-year Capital Plan, reflecting Guidelines and Policy Directives
 - Property Database, including all City property
 - Lease Management Program
 - Preventive Maintenance Program
 - Day-to-day Building Management



What to do...

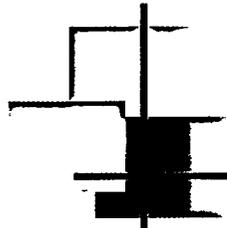
- Focus MFC and City Council on strategic and policy issues*
 - Delegate decisions involving less than a certain dollar value to General Services Department
- Maximize financial value of properties*
 - Public/Private Partnerships
 - Incentives for Departments to Reduce Space Requirements
 - City Benefits from Sale of Surplus Property



What to do...

- ✓ *Establish Guidelines*
- ✓ *Implement Strategic Property Management*
- ✓ *Focus on Policy Areas*
- ✓ *Maximize Financial Value*

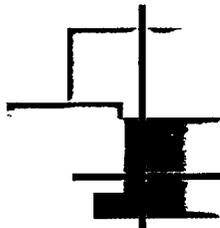




Proposed Guidelines

City Property...

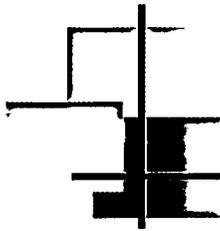
- is located to maximize accessibility, safety, convenience of residents and users of City services
- maximizes safety, efficiency and effectiveness of City workers
- is acquired, disposed of, and managed based on life-cycle cost methodologies
- produces revenues where appropriate
- is designed to be a permanent community asset, where appropriate
- is environmentally responsible.



What to do...

- ✓ *Establish Guidelines*
- ✓ *Implement Strategic Property Management*
- ✓ *Focus on Policy Areas*
- ✓ *Maximize Financial Value*





Strategic Property Management

KH
CONSULTING
GROUP
MANAGEMENT
CONSULTANTS

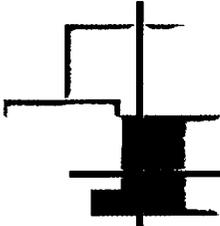
- Five-year Property Plan
- Property Database, Including All City Property
- Lease Management Program
- Preventive Maintenance Program
- Day-to-day Building Management

What to do...

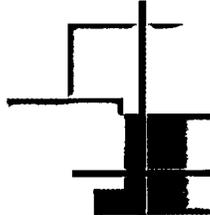
- ✓ *Establish Guidelines*
- ✓ *Implement Strategic Property Management*
- ✓ *Focus on Policy Areas*
- ✓ *Maximize Financial Value*



Focus Policymakers on Policy



- A great percentage of MFC items relate to:
 - Routine renewals
 - Administrative items
 - Other minor items
- Commissions reportedly focus primarily on transaction approvals, not policy directives
- City makes spending decisions without knowing:
 - What future expenditures will be needed for that property
 - Whether the property is worth the additional expenditures
- The Parker Center replacement was indicative of a lack of coherent planning and decision-making at the policy level.
- Not-for-profit leasing policy is an example of a policy development which is working.



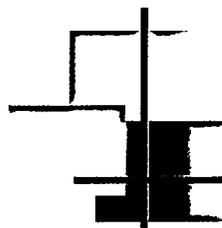
Policies in Need of Review or Presentation

- Proceeds from sale of property**
 - General Fund
 - Special Fund for Maintenance of Properties
 - Housing Trust Fund
- Lease vs. buy strategic approach**
- Use of surplus property for city priorities**
 - Housing
 - Open Space
 - Economic Development
- Maintenance of Bond-funded properties**

What to do...

- ✓ *Establish Guidelines*
- ✓ *Implement Strategic Property Management*
- ✓ *Focus on Policy Areas*
- ✓ *Maximize Financial Value*





Maximize Financial Value

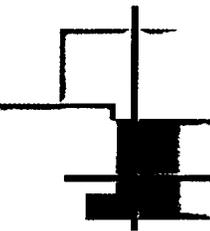
- Use best practices from other jurisdictions
 - For example: Trading underutilized City properties
- Set up joint ventures with private developers to provide revenues or offset maintenance costs
- Provide incentives for Departments to use less or less valuable space
- Focus on the City's credibility in the real estate marketplace. Engage in consistent, realistic negotiations, and agreements with:
 - Property Owners/Sellers
 - Property Agents
 - Real Estate Brokers

Appendices:

Strategic Property Management

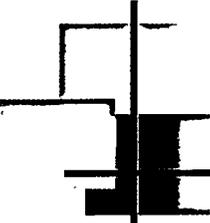
- A. Five-Year Property Plan*
- B. Property Database, Including All City Property*
- C. Lease Management Program*
- D. Preventive Maintenance Program*
- E. Day-to-day Building Management*





A. Five-Year Property Plan

- Identifies property requirements, allowing establishment of priorities following guidelines
 - Lease vs. buy
 - Priority program use
- Permits analysis of alternative uses of property to assure it is put to the best use
- Budgets for major maintenance programs, allowing establishments of priorities
- Provides structure for leaders to insert policy direction and guidance to medium and long-term decisions; for example:
 - Approach to addressing disposition of surplus property to meet City program priorities
 - Guidelines for implementing revenue generation by facilities



A. Annual Implementation Program of a Five-Year Plan

- **Annually:** Present Program for approval to City Council and Mayor which implements first year of a 5-year plan
 - Authorization for minor items included in program approval
 - Timeline for major items presented

B. Property Database

Supports Property Planning by including:

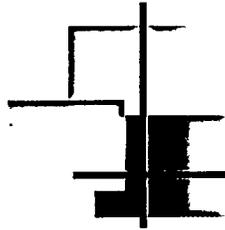
- Projected capital requirements**
- Available or excess square footage**

Supports Preventive Maintenance Planning by including:

- Deferred Maintenance conditions**
- Building systems aging and condition**

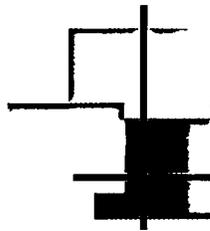
Supports Operations and Maintenance by including:

- Square footage by building type**
- O&M requirements and contracts**



B. Property Database

- GSD manages
- Gathers initial data from all Departments, including Proprietary Departments
- Records major maintenance and improvements and deficiencies
- Reflects acquisition and disposition of properties
- Reflects deferred maintenance on each property



C. Lease Management Program

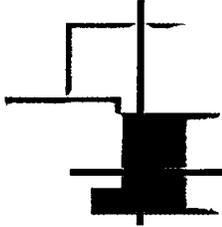
City as Landlord – Profit

- Tenant Information
- Standardized lease terms and conditions
- Link to property database regarding asset cost and value
- Revenue information
- Termination/renewal options
- Regular market rate review
- Start and end dates

City as Landlord – Not-for-Profit

- Tenant Information
- Lease terms reflecting policy
- Link to property database regarding asset cost and value
- Termination/renewal dates
- Annual review of value of services provided to City
- Start and end dates

D. Preventive Maintenance Program



- Include all major building systems
 - Roofing
 - Exteriors
 - Elevators, escalators
 - HVAC
 - Electrical
 - Plumbing
 - Fire Protection
 - Communications
 - Interiors, paint, carpeting, floors, built-ins, etc.
- Work from industry standards for equipment useful life
- Include scheduling of regular maintenance to avoid expensive system breakdowns

E. Day-to-Day Building Management

- **Operations – routine and special needs**
 - Cleaning
 - Landscaping
 - Heating/Cooling
 - Safety/Security
 - Relocations, simple renovation
 - Data/Voice communications

- **Maintenance**
 - Small system preventive maintenance (can be designed as part of larger PM program)e.g.,
 - Painting
 - Carpeting
 - Relamping
 - Spot repairs (e.g. leaky faucet, broken light switch, thermostat control, lock broken)

Implementation requires local, on-site presence which manages building routines to a standard.

Your **AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE
and
INFORMATION TECHNOLOGY AND GENERAL SERVICES COMMITTEE**

report as follows:

	<u>Yes</u>	<u>No</u>
Public Comments	<u>XX</u>	<u>—</u>

AUDITS AND GOVERNMENTAL EFFICIENCY and INFORMATION TECHNOLOGY AND GENERAL SERVICES COMMITTEES' REPORT relative to maximizing the public benefits from the City's real estate portfolio.

Recommendation for Council action, as initiated by Motion (Greuel - Perry):

INSTRUCT the Department of General Services, with the assistance of the City Administrative Officer (CAO) and the Chief Legislative Analyst (CLA), and with the cooperation of all City, including proprietary, Departments, to prepare a detailed set of recommendations consistent with the findings of the City Controller's latest audit of the City's real estate management functions, including, but not limited to, the following:

- a. development of a five-year capital plan and an annual real estate plan;
- b. expedited completion of a comprehensive database on all City real estate assets;
- c. summary information and recommendations for implementing an effective deferred maintenance program for all City assets;
- d. recommendations for operational and/or administrative changes that will effectuate improvements in the management of City assets;
- e. policy recommendations to guide the future development and management of City assets;
- f. development of a leasing policy, including under what conditions the City would lease versus purchase property;
- g. development of a policy regarding consolidating City assets versus having property that is more spread out geographically.

Fiscal Impact Statement: Neither the CAO nor the CLA has completed a financial analysis of this report.

Summary:

The Motion (Greuel - Perry), dated July 16, 2004, attached to the Council file, states that following months of deliberations and discussions by the City's policymakers regarding the management of City real estate assets, the City Controller commissioned an audit of this function for recommendations for improvements. On July 15, 2004, the City Controller released the recommendations: "A Vision and Strategy for the City's Real Estate," prepared by KH Consulting Group, attached to Council File No. 03-1860-S1. This audit reviews the current operations and provides a comprehensive set of recommendations to focus the City's real estate efforts in a manner that will maximize the public benefits from the City's real estate portfolio.

The Motion states that now that the City Controller has provided the framework for improvements in the City's real estate asset management system, it is time for the Council and the Mayor to implement actions consistent with that framework. The Motion instructs the Department of General Services (GSD), with the assistance of the CAO and the CLA, and with the cooperation of all City, including proprietary, Departments, to prepare a detailed set of recommendations consistent with the findings of the City Controller's latest audit of the City's real estate management functions, including, but not limited to, the following: development of a five-year capital plan and an annual real estate plan; expedited completion of a comprehensive database on all City real estate assets; summary information and recommendations for implementing an effective deferred maintenance program for all City assets; recommendations for operational and/or administrative changes that will effectuate improvements in the management of City assets; and, policy recommendations to guide the future development and management of City assets;

On January 25, 2005, at a joint meeting of the Information Technology and General Services (ITGS) and Audits and Governmental Efficiency (AGE) Committees, the Committees discussed the Motion and the KH Consulting Group recommendations with a representative from the Department of General Services (GSD) and the KH Consulting Group representatives. The GSD representative stated that GSD has requested funding in next year's budget for a consultant to develop a 5-, 10-, or possibly a 20-year vision for the City's, including the proprietary departments, real estate. The GSD representative updated the Committees on the status of completion of a comprehensive database of all City real estate assets. The database now contains the Council-controlled departments' 2,400 parcels. Real estate information is missing from the proprietary departments and is being sought.

The AGE Committee Chair recommended the addition of the following recommendations to the recommendations listed in the Motion: development of a leasing policy, including under what conditions the City would lease versus purchase property; and, development of a policy regarding consolidating City assets versus having property that is more spread out geographically.

The AGE and ITGS Committees approved the recommendations in the Motion (Greuel - Perry), as amended by the AGE Committee Chair, relative to maximizing the public benefits from the City's real estate portfolio. This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

AUDITS AND GOVERNMENTAL
EFFICIENCY COMMITTEE

INFORMATION TECHNOLOGY AND
GENERAL SERVICES COMMITTEE

MEMBER
GREUEL:
WEISS:
HAHN:

VOTE
YES
YES
ABSENT

MEMBER
WEISS:
PARKS:
GARCETTI:

VOTE
YES
ABSENT
YES

IS
1/27/05
#041419.wpd

AUDITS AND GOVERNMENTAL EFFICIENCY COMMITTEE
SUGGESTED NOTIFICATION OF COUNCIL ACTION

Council File No. 04-1419

- Council Member(s) _____
- Interested Department Dept. of General Services
- Mayor (~~with~~/without file) _____
- Chief Legislative Analyst _____
- City Administrative Officer _____
- Controller _____
- City Clerk _____
- City Clerk, Chief Administrative Services _____
- Treasurer _____
- City Attorney (~~with blue sheet~~ / without blue sheet) _____
- Department of Transportation _____
- Personnel Department _____
- Los Angeles Housing Department _____
- City Planning Department _____
- Community Redevelopment Agency _____
- Board of Public Works _____
- _____
- _____
- _____
- _____

CITY LOS ANGELES SPEAKER CARD

Date

1/25/2002

Council File No., Agenda Item, or Case No.

#2 CH-1719

I wish to speak before the

INFORMATION TECH & SERVICES JT MEETING

Name of City Agency, Department, Committee or Council

Do you wish to provide general public comment, or to speak for or against a proposal on the agenda? () For proposal

() Against proposal

(X) General comments

Name:

JOYCE DILLARD

Business or Organization Affiliation:

Address:

PO BOX 313 77

LA 90031

Street

City

State

Zip

Business phone:

Representing:

CHECK HERE IF YOU ARE A PAID SPEAKER AND PROVIDE CLIENT INFORMATION BELOW:

Client Name:

Phone #:

Client Address:

Street

City

State

Zip

Please see reverse of card for important information and submit this entire card to the presiding officer or chairperson.

23-1860-S1

1



OFFICE OF
CONTROLLER

LAURA CHICK
CONTROLLER

200 N. MAIN STREET
ROOM 1200
LOS ANGELES 90012
(213) 485-5066

July 15, 2004

The Honorable James K. Hahn
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council
City Hall
200 North Main Street
Los Angeles, CA 90012

Dear Mayor Hahn, City Attorney Delgadillo, and Members of the City Council:

The City of Los Angeles owns thousands of pieces of property, totaling billions of dollars, from the fifth largest airport in the world to slivers of undeveloped surplus property. In August of last year, I conducted an audit of the City's management of its real estate assets. The audit found that the City has no overarching vision and no strategic plan, but instead handles its very valuable real estate on an ad-hoc, piecemeal, and transactional basis. Most troubling is the fact that the City does not even have a single, central database of what it owns.

In an effort to maximize the public's benefit of the vast properties we own, I am releasing, "A Vision and Strategy for the City's Real Estate."

The need for a comprehensive vision was certainly apparent during the City's deliberation on a new police headquarters and the purchase of the Transamerica building. These critical decisions occurred in the absence of a clear picture of what the City needs, and what the City already owns and leases.

AUDITS & GOVERNMENTAL
EFFICIENCY

JUL 19 2004

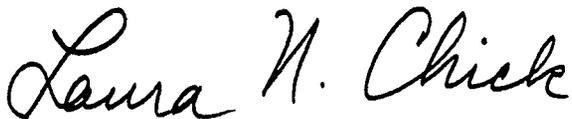


July 15, 2004
page two

This vision for the City's real estate sets forward a new approach which will promote better decision-making, streamlined implementation of strategic decisions made by City leaders, improved maintenance of City properties, and a financially optimized use of the City's real estate assets. It is vital that we move to an approach which is integrated and thoughtful, and one in which we anticipate and plan for future needs.

I'm looking forward to the City's leadership using both the audit and the strategic vision to revolutionize the way the City does its real estate business.

Sincerely,

A handwritten signature in cursive script that reads "Laura N. Chick". The signature is written in black ink and is positioned to the left of the typed name.

LAURA N. CHICK
City Controller

A VISION AND STRATEGY FOR THE CITY'S REAL ESTATE

July 11, 2004

In April 2004, the City Controller of the City of Los Angeles asked KH Consulting Group (KH) to develop a vision for effective management and use of the City's real estate assets. Included in the vision were to be:

- Guiding principles and policies which should govern the use and management of City owned or leased properties
- Critical strategic goals to be achieved by the City
- Ideal distribution of roles and responsibilities across City departments
- Significant initiatives to be launched, including potential legislative directions to be considered over the coming year
- Recommendations for the development of analytic tools, methods, and skill sets.

METHODOLOGY

In completing this vision, KH reviewed best practices in other jurisdictions and in the private sector to develop potential improvements to the systems in place. Building on KH's research completed for the "Performance Audit of the Asset Management Division (AMD) of the General Services Department (GSD) of the City of Los Angeles" (dated August 14, 2003)¹, the KH consulting team:

- Benchmarked asset management functions of several other large and medium-sized cities to identify potential best practices that might be applied to the functions

- Interviewed more than 21 key City leaders, including City Council members, senior City officials and staff responsible for key asset management decisions, and prominent members of the real estate community in the City of Los Angeles. Appendix A lists those interviewed.

- Visited selected City properties and other facilities.

¹ Source: Posted on the website of the Office of the Controller, City of Los Angeles.

INTRODUCTION

The City of Los Angeles owns thousands of pieces of property, ranging

from the unique and magnificent City Hall *to* slivers of undeveloped surplus property slated for transfer to neighboring land owners,

from the fifth largest airport in the world *to* pocket parks around which neighborhoods form,

from Police and Fire stations sited to optimize response times *to* maintenance yards that provide room for storage of critical materials,

from offices housing administrative and management personnel *to* public use facilities visited daily by hundreds of residents in need of City services.

In the midst of this diversity, no one is consistently and thoroughly considering policy direction for the use and management of City real estate. As displayed in Exhibit 1, the City's oversight responsibilities are complex because some departments are:

Council-controlled departments with commissions (e.g., Fire, Parks and Recreation, Police)

Council-controlled departments without commissioners (referred to as line departments)

Proprietary departments with commissions (Los Angeles World Airports (LAWA), Harbor Department, and Department of Water and Power (DWP)).

Only sporadic review is provided of key City real property issues. Elected and professional City leaders, City Council members, and appointed commissioners are presented with a bewildering array of transactions for approval without a context for good decision-making and its long-term implications.

The recent proposed acquisition of the Transamerica-Broadway building is symptomatic of the lack of policy and direction in City real property management. The City Council was considering acquiring the property before a consensus had formed about which City Departments and employees would be housed in the facility. Within a few weeks of its anticipated closing date, competing proposals for the use of the property included: 1) temporary space for Police Administration and Headquarters while a permanent facility is to be built, 2) permanent space for Police Administration and Headquarters, and 3) replacement of leased City office space.

The credibility of the City in the commercial real estate marketplace can be called into question because a predictable and expeditious review process does not occur, even after negotiations have been conducted in good faith.

Transactions of this size should be reviewed in a context that considers such issues as:

What is the City's strategy for occupying office space? What are the criteria for leasing space?

Has the deal been structured to offset maintenance costs or generate revenues through retail leases or other agreements?

How does this acquisition fit into a five-year plan for property management?

- What other acquisitions are anticipated, and what will be the impact on the City's budget or debt capacity?
- What are the programmatic implications of relocating City offices, and how will this fit into the current and projected need for City residents to have convenient access to critical services?

The current process requires three well-informed and well-intentioned City officials – the Mayor's Chief of Staff, the Chief Legislative Analyst (CLA), and the City Administrative Officer (CAO) – to consider all transactions that involve the movement of City staff, and to make recommendations to the Information Technology and General Services (ITGS) Committee of the City Council on dozens of small transactions. Their attention could be better devoted to consideration of major directions and policy issues, or to offer guidance on decisions about deferred maintenance, which has a direct impact on the long-term value and the safe and efficient operations of City agencies. Central policy issues associated with property management are not systematically or routinely raised, analyzed, and addressed.

Acquisition, disposition, and leasing of properties, while important, are only part of a comprehensive asset management approach to the administration of real property. The City can only provide services to its residents in safe, well-managed properties. Planned and effective maintenance and operation of City property are also central to financially responsible asset management. Identifying opportunities for revenue generation using City properties will ease budget constraints, thereby helping the City meet the needs of its residents.

The purpose of this paper is to outline an alternative approach to management and use of City property, which will permit better decision-making, streamlined implementation of strategic decisions made by City leaders, improved maintenance of City properties, and a financially optimized use of the City's real estate assets.

IMPROVEMENTS TO CITY REAL PROPERTY ASSET MANAGEMENT

On the basis of best practices proven effective in both the public and private sector, the City of Los Angeles should address four key areas that would dramatically improve the asset management of the City's real property.

1. *Establish Guiding Principles for Property Decisions Supported by the Mayor and City Council.*

While some individuals involved in the process have articulated approaches to issues of property management, there are no officially approved guidelines, which can be applied to frame decisions. The City Council and Mayor should adopt policies that are consistent with overarching Real Property Guiding Principles that they have been debated and approved. For example, the following six overarching guidelines would provide a structure within which property policy decisions and transactions are considered:

Suggested Real Property Guiding Principles

1. *City Property is located to maximize accessibility, safety and security, and convenience of residents and users of City services.*
2. *City Property maximizes safety and security, efficiency, and effectiveness of City workers.*
3. *City Property is acquired, disposed of, and managed based on life-cycle cost methodologies.*
4. *City Property produces revenues where appropriate.*
5. *City Property is designed to be a permanent community asset where appropriate.*
6. *City Property is environmentally responsible.*

Within these guiding principles, individual policies can be formed, and major transactions can be proposed and reviewed. For example, policies in support of the life-cycle cost methodology would change how the City considers donations of property, and should lead to changes in the way the City budgets for maintenance. Major transactions, such as the example of the acquisition of the Transamerica-Broadway building, would be governed by at least Guidelines 1, 2, and 3.

2. *Implement a Strategic Property Management Approach to City-Owned Real Property.*

When a city adopts a Strategic Property Management Approach (coupled with the six guidelines), it can expect that property will support the city's programs and policies; property will be safe, clean, and useful for residents, visitors, and City employees; and property will cost less per-square-foot to build and maintain. There are five major elements of Strategic Property Management that the City should adopt. Responsibility

for these elements should be shared by the City's General Services Department (GSD); the Mayor's Office, the three proprietary departments, and, in some cases, the line departments.

a. Complete the Property Database So That It Includes All City Property.

A property database is a necessary and fundamental prerequisite for effective management of City-owned real property assets. It must include information about all properties owned by the City, be it Council-controlled or under the purview of proprietary departments. The database should include:

- Location
- Square footage or acreage
- Tenants and percentage of occupancy
- Purpose
- Improvements
- Date of acquisition
- Major maintenance
- Deferred maintenance

This database will permit the accumulation of benchmarking data to facilitate decision-making while implementing property management decisions, and provide documented institutional memory in the face of changes in personnel. It will form the basis for planning, maintenance, and operational decisions. The database must be kept up to date, available to all interested City staff, and coordinated and managed by GSD's Asset Management Division (AMD).

Maintaining the value of properties in the database would be a difficult and expensive task, as property value can change quickly. Such information may be necessary, however, with the advent of grant funding criteria under programs administered by the U.S. Department of Homeland Security.

b. Establish a Lease Management Program.

The City should have a consistent approach to the management of leases. The Harbor Department and Los Angeles World Airports (LAWA) can be viewed as large real estate operations, serving as landlords responsible for security and operations of facilities that house transportation firms. Managing and negotiating leases are central to their mission. For most other City departments, lease management is a task that needs to be managed well, but is not critical to their operations. From a City-wide perspective, however, effective lease management:

- Facilitates informed decision-making about lease versus buy decisions
- Improves the City's bargaining position regarding terms and conditions and costs

- Helps assure space will be available for program needs.

All lease programs, which generate revenues for the City and regardless of who manages them, should include:

- A continually updated database with standard information, including:
 - Tenant information
 - Start and end dates for leases
 - Revenue information
 - Other terms and conditions relevant to the operation of the lease
 - Termination/renewal options
- A system to trigger needed actions to be taken at least six months before the options expire
- Regular market rate reviews
- Links to the City-owned property database

Where the City is a tenant, staff should keep track of landlord information, lease costs and payment history, termination and renewal options, and operational terms and conditions. The City should develop a space plan, and conduct market rate reviews to be better positioned when the time comes to renegotiate the leases. Well before lease renewal, the City should consider:

- Whether it is preferable to lease or purchase, including consideration of such issues as cost, planned expiration of grant-funded programs, and projected staffing changes
- Under what conditions incurring the considerable disruptions and expenses associated with moving would be preferable to renewing the leases
- Projected space requirements for all departments, including short- and medium-term projections of staff

Finally, the City should standardize and streamline the processes for leasing property, coordinating efforts of the Mayor, the City Attorney, the responsible departments, and the City Council.

c. Establish a Preventive Maintenance Program.

The City should assure that properties, once acquired, remain assets and do not become liabilities with an ever-increasing backlog of unfunded maintenance. To do this, effective asset managers implement a regular preventive maintenance program. For properties with major structures, replacement of major building systems should be scheduled and priced so that considered decisions can be made

regarding investing in or disposing of the properties. All major building systems should be included, especially:

- Roofing
- Exteriors
- Windows
- Elevators, escalators
- Heating, ventilation, and air condition (HVAC) systems
- Electrical
- Plumbing
- Fire protection
- Communications
- Interiors, paint, carpeting, floors, built-ins, etc.

All City-owned buildings should be included in the program. These investments in building systems are cost-effective because:

- City properties will retain their value.
- Properties will be less expensive to maintain and will last longer.
- The negative impact of downtime on critical City programs will be minimized.
- Preventive maintenance programs can accelerate money-saving retrofit projects that generate real savings in energy efficiency.

GSD should be responsible for planning and overseeing preventive maintenance for building structures on all City property with the exception of the proprietary departments. The only exception to this assignment should be for departments that choose to establish separate Facilities Divisions with staff specifically trained to plan and manage preventive maintenance programs that GSD has reviewed and approved. Finally, the Mayor and City Council should appropriate sufficient funds to assure that building systems are maintained as planned.

d. Assign Responsibility for Day-to-Day Building and Property Management.

The City needs to assign responsibility for day-to-day management of each of its real property assets. Through this effort, the City's properties would remain safe; and, attention to minor repairs would reduce theft and liability for accidental injuries. Good day-to-day building management makes properties look welcoming, comfortable, and attractive. A welcoming environment for the public is created, improving the perception of the City. Most importantly, small problems stay small, and do not grow through neglect.

Large real estate operations typically assign responsibility for buildings to property managers, who have offices in the buildings managed, and oversee

everything from planning of major maintenance, to contracting for unplanned repairs, to assuring that space is completely leased.

- For large buildings owned by the City, a full-time manager is appropriate.
- Multiple smaller buildings can be combined under a single full-time manager, or can be individually assigned to a part-time manager.
- Property-related responsibilities for large facilities, such as large parks, should be consolidated under the overall facility manager.

As the City centralizes preventive maintenance planning, the minimal typical responsibilities would be:

- *For office space housing City employees*, the responsible staff member would oversee day-to-day operations and routine maintenance.
- *For facilities that are built, leased, and operated by tenants*, such as airline terminals, the responsible staff member would assure that the City's property rights and residual values are maintained.
- *For facilities, such as police and fire stations, libraries, and parks*, the responsible staff member would assure that the building or property is safe; regular maintenance and routine upkeep are performed, including cleaning, landscaping, and HVAC systems; and voice and data communications are maintained.

Although there may be exceptions, in general the staff members responsible for this function should report to the departments responsible for the preventive maintenance planning for the property or facility.

e. Present for Approval a Five-Year Capital Plan and an Annual Real Estate Capital Program, Which Reflects Guidelines and Policy Directives.

Property decisions will impact City departments, staff, residents, and service providers for many years. Decisions are interrelated and good decisions must consider, for example:

- Whether other space is planned for acquisition or disposition that affects the property being discussed
- Whether space in properties leased by the City should be increased or decreased
- What programmatic or policy decisions have been made that will impact property needs

- Whether the affected property has significant deferred maintenance or other liabilities that will affect its continued financial viability.

The City should develop and annually update a property plan that:

- Identifies property requirements
- Allows the establishment of priorities in asset management that respond to the guiding principles
- Addresses programmatic or policy needs.

This plan will permit analysis of alternative uses of property to assure they are put to the best use, and will provide a structure for leaders to exercise policy direction and guidance for medium- and long-term decisions. The plan will include consideration of major maintenance program needs and costs so that transactional decisions will take into account the overall condition of the portfolio.

GSD should develop the *Five-Year Capital Plan* for Council-controlled departments. GSD should work collaboratively with these departments to:

- Identify existing and projected program-related property needs, including replacement of inadequate facilities
- Detail the criteria used to prioritize real estate programs.

The proprietary departments should develop and present similar plans for approval.

Annually, a one-year Real Estate Capital Program should be prepared and presented to the City Council and Mayor that implements the first year of the rolling five-year Plan. The approval of the program would include approval of all property transactions thereafter that meet agreed-to standards and limits. In this way, for example, additional transactional reviews would not be required for:

- Amendments to existing leases that do not increase costs by more than \$25,000 per year and are co-terminous with the existing lease
- Disposition of surplus property valued at less than \$50,000
- Office space changes affecting less than 30 staff members.

3. *Focus Elected City Decision-Makers on Real Property Strategic and Policy Issues.*

The City must consistently and thoroughly consider policy directions in dealing with its real estate. The City's real property transactions range from complex, high-profile, costly, and important ones (such as the acquisition of the Transamerica-Broadway building), to a high volume of minor ones (such as the amendment of leases in small buildings to augment existing spaces): The extensive and time-consuming review of

these transactions – whether major or minor transactions – must be replaced by consideration and resolution of such critical policy issues as:

What should the City's strategy be for leasing versus buying property?

How can the City best use proceeds from the sale of property, so that one-time revenues are devoted to capital programs that benefit the City as a whole, and are not diverted to meet short-term, local operating needs?

How can the City change its budgeting process to assure that adequate funds are set aside to maintain owned property, especially new property developed using bond proceeds?

While the City Council can and should establish the policies that will support effective City property management, the Council needs support in:

- Developing policies that support the guiding principles for City properties
- Assessing the impact of potential policy initiatives on the portfolio
- Reporting on the effectiveness of the City in meeting property objectives.

Examples of policies that have been considered and passed include:

The Historic Core policy, which sought to locate City offices in a specific area in downtown Los Angeles so that the City could act as an anchor tenant spurring local economic development of the area

The Non-Profit Leasing policy, which requires that leasing City property to a non-profit organization be documented as the highest and best use of the property, and spells out the anticipated responsibilities for property management by the non-profit lessee

The Space Standards Policy, which provides guidelines for space occupancy.

These three examples should serve as models of practices to be emulated. (Note: While some currently view the Historic Core policy as outmoded, it is nevertheless an example of a policy direction approved by the City Council that helped guide selection of many leased properties.)

As policies and guiding principles are debated and passed giving better direction regarding the intent of the City Council to staff, the City Council can delegate the implementation of transactions below a designated, small dollar threshold to the implementing departments.

4. Maximize Financial Value of or Return on Properties.

Practices used in commercial real estate to develop and maximize the value of land and buildings are, in many cases, entirely viable for the City of Los Angeles to research and consider. Typical examples implemented by other municipalities include:

Ancillary commercial uses of city properties

Trade of higher value city property in exchange for property developed to meet specific city needs

Commercial leases of property rights, easements, and entitlements.

The City of Los Angeles does not currently take sufficient advantage of such opportunities, however. The primary means of generating revenue through property lies in the disposal of surplus property, although City policy goals of housing, park space, and economic development are properly considered more important than revenue generation. Proceeds from the sale of surplus property are one-time revenues; the proceeds of these sales should be considered capital funds.

More lucrative to the City are revenue streams that extend beyond a single year. The City should also look for opportunities where the highest and best use of occupied and fully used property calls for the transfer or sale of the asset to developers or other Governmental agencies. Incentives should be established so that City departments that occupy property actively consider how their property can generate the greatest value for the City. Without strong incentives, departmental staff struggling to achieve the departmental mission view property changes as at best a distraction, and at worst as an impediment to being able to accomplish identified goals and objectives.

VISION

The City of Los Angeles owns or controls one of the largest and most significant portfolios of real estate in the United States. The renovated Los Angeles City Hall, preserved with future generations in mind, provides a clear example of a municipal policy and decision coupled with a strategic vision. This study has found that realistic and efficient management of City real property can serve similar ends by:

Fostering an economic renaissance in the community

Establishing important civic assets that are embraced by neighbors

Forming community and cultural hubs with parks, libraries, government service centers, meeting places, and accessible transportation

Nurturing a place where City workers can serve both the needs of the public and visitors with pride

Leaving a legacy for future generations to enjoy and value.

The ancient Greeks and Romans understood the value of such a vision in building infrastructures that have lasted more than two millennia. For centuries, Europe has understood this strategic approach, creating beautiful plazas around government buildings for residents and visitors to gather, relax, and enjoy. U.S. examples of investments in civic centers are in Phoenix, Seattle, Minneapolis, New York City, and Washington, D.C. – all of which have recognized that they will be in the business of government for many generations and, accordingly, have made investments in their facilities that will stand the test of time. When the Port Authority of New York-New Jersey embarked on building the World Trade Center in an area that was economically blighted, many debated if the investment was viable. Despite the tragedy of September 11th, the World Trade Center reaped its return-on-investment multi-fold, while revitalizing the southern end of Manhattan, stimulating residential and commercial expansion, serving as a junction for more than 250,000 commuters every day, and attracting visitors from all over the world.

An ongoing criticism of the City of Los Angeles is that it lacks a center. This criticism is even harder to overcome when the City has not strategically invested to form community and civic centers – possibly forming mini-centers – throughout the diverse geographic area. The Marvin Braude San Fernando Valley Constituent Service Center in Van Nuys is an example of the potential of one of these types of complexes. The technological age may make it easier for City employees to telecommute and residents to access City services electronically, thereby, making the City less dependent on brick-and-mortar infrastructure. The value of investments in government facilities, however, can be recouped and such facilities have multiple purposes in serving the public and forming community hubs.

Los Angeles can and should be a national leader in the management of real property assets. This vision can be realized when leaders of the City of Los Angeles:

- Consider the value of the investment in property
- Assess the long-term implications of real estate decisions
- Begin to articulate plans for the effective use of the City's real property to contribute to the needs of City departments, its communities and their residents, and visitors.

**EXHIBIT 1
CITY OF LOS ANGELES:
CURRENT ASSIGNMENT OF
RESPONSIBILITY FOR ASSET MANAGEMENT**

RESPONSIBILITY	INITIAL ANALYSIS	REVIEW/ RECOMMENDATION	APPROVAL	IMPLEMENTATION
<i>Council-Controlled Departments With Commissions (Fire, Parks, Police, etc.)</i>				
<i>Development of Policy</i>	NA ²	#Commission #ITGS ³	#Commission	#Department
<i>Acquisition of Property (leasing, purchase)</i>	Department	#MFC ⁴ #ITGS #Commission #Proposition Q, F, etc. #Committees	#City Council #Mayoral Veto Power	#GSD #Department #City Attorney #Engineering
<i>Property Improvements</i>	Department GSD	#MFC #ITGS #Proposition Q, F, etc. #Committees	#City Council	#Engineering
<i>Disposal of Property</i>	Department GSD	#MFC #ITGS #Commission	#City Council #Mayoral Veto Power	#GSD #Department #City Attorney #Engineering
<i>City Personnel Movements</i>	Department	#MFC	#City Council #Mayoral Veto Power	#GSD #Department
<i>Property Maintenance and Operations</i>	Department	NA	Budget Review	#Department
<i>Council-Controlled Departments Without Commissions</i>				
<i>Policy Development</i>	GSD	#MFC #ITGS	#City Council #Mayoral Veto Power	#GSD
<i>Acquisition of Property</i>	GSD	#MFC #ITGS	#City Council #Mayoral Veto Power	#GSD #Department #City Attorney #Engineering
<i>Disposal of Property</i>	GSD	#MFC #ITGS	#City Council #Mayoral Veto Power	#GSD #Department #City Attorney #Engineering
<i>Property Improvements</i>	GSD	#MFC #ITGS	#City Council #Mayoral Veto Power	#Engineering

² NA = Not Applicable

³ Information Technology and General Services (ITGS) Committee of the City Council

⁴ Municipal Facilities Committee (MFC), consisting of the Mayor (or his Chief of Staff), CLA, and CAO.

RESPONSIBILITY	INITIAL ANALYSIS	REVIEW/ RECOMMENDATION	APPROVAL	IMPLEMENTATION
<i>City Personnel Movements</i>	Department with GSD	#MFC #ITGS	#City Council #Mayoral Veto Power	#GSD #Department
<i>Property Maintenance and Operations</i>	GSD	#CAO	Budget Review	#GSD #Department #City Attorney
Proprietary Departments (DAWA Harbor, DWB)				
<i>Policy Development</i>	Department	#Commission	#Commission #City Council with Mayor Veto Power for certain policies	#Department
<i>Acquisition of Property</i>	Department	#Commission	#City Council #Mayoral Veto Power	#Department #City Attorney
<i>Property Improvements</i>	Department	#Commission	#City Council #Mayoral Veto Power	#Department
<i>Disposal of Property</i>	Department	#Commission	#City Council #Mayoral Veto Power	#Department, #City Attorney
<i>City Personnel Movements</i>	Department	NA	NA	#Department
<i>Property Maintenance and Operations</i>	Department	#CAO	Budget Review	#Department

**APPENDIX A
INTERVIEWS CONDUCTED**

MUNICIPAL FACILITIES COMMITTEE (MFC)	
Tim McCosker	Office of the Mayor
Ron Deaton	Office of the Chief Legislative Analysis (CLA)
William Fujioka	Office of the City Administrative Officer (CAO)
MFC STAFF	
Gerry Miller	Office of the Chief Legislative Analysis (CLA)
Jody Yoxsimer	Office of the City Administrative Officer (CAO)
David Mora	Mayor's Office of Economic Development
CITY COUNCIL	
Wendy Greuel	City Council Member
Bernard Parks	City Council Member
PRIVATE SECTOR	
Alan Aufhammer	CB Richard Ellis
David Kluth	Studley
Mark Weinstein	MJW Investments
Jerold Neuman	Allen Matkins
Dan Rosenfeld	Urban Partners, LLC
CITY GOVERNMENT	
Alvin Y. Blaine	General Services Department (GSD)
David Pascal	General Services Department (GSD)
Reginald Jones-Sawyer	Asset Management Division (AMD) of the General Services Department (GSD)
Jon Kirk Mukri	Department of Recreation and Parks
Julianna Cheng Fontayne Holmes	Department of Libraries
Spencer Ballard Paul Green (by telephone)	Los Angeles World Airports (LAWA)
OTHER GOVERNMENT	
Office of the Director of Real Estate	City of Seattle

~~INFORMATION TECHNOLOGY & GENERAL SERVICES~~
~~COMMERCE, ENERGY & NATURAL RESOURCES~~

~~ARTS, PARKS,~~
~~HEALTH & AGING~~

Following months of deliberations and discussions by the City's policymakers regarding the management of City real estate assets, the City Controller commissioned an audit of this function to determine its effectiveness and make recommendations for improvements. On July 15, 2004, the City Controller released the results of that audit in her report entitled "A Vision and Strategy for the City's Real Estate." In it, the City Controller reviews the current operations and provides a comprehensive set of recommendations to focus the City's real estate efforts in a manner that will maximize the public benefits from the City's real estate portfolio.

~~JUL 16 2004~~

The key recommendations in the Controller's audit focused on two areas: establishment of a long-range plan for asset management, and investment in the City's current assets. The Controller recommends that City staff develop and present a five-year capital plan and an annual real estate plan based on guidelines and policy directives established by the City's policymakers. The Controller notes that key to development of this plan is the completion of a comprehensive database of specific information on ALL City properties, including those owned by the proprietary and semi-independent departments and bureaus. On multiple occasions, the City Council has encouraged the completion of this database and the Controller's findings support that effort.

Now that the City Controller has provided the framework for improvements in the City's real estate asset management system, the time has come for the City Council and the Mayor to work cooperatively to actively implement actions consistent with that framework. With billions in City assets involved in this process, it is critical that the City learns from past successes and focus its efforts to build a quality infrastructure to benefit future generations.

I THEREFORE MOVE that the City Council INSTRUCT the General Services Department, with the assistance of CAO and the CLA and with the cooperation of all City and proprietary departments, prepare a detailed set of recommendations consistent with the findings of the City Controller's latest audit of the City's real estate management functions, including but not limited to the following:

- development of a five-year capital plan and an annual real estate plan;
- expedited completion of a comprehensive database on all City real estate assets;
- summary information and recommendations for implementing an effective deferred maintenance program for all City assets;
- recommendations for operational and/or administrative changes that will effectuate improvements in the management of City assets;
- policy recommendations to guide the future development and management of City assets.

I FURTHER MOVE that the General Services Department report to a joint meeting of the Audits & Governmental Efficiency Committee and the Information Technology & General Services Committee within 60 days with a status report on its efforts, and any preliminary recommendations that will move this streamlining effort forward.

PRESENTED BY: Wendy Greuel
Wendy Greuel
Councilmember, 2nd District

CO-PRESENTED BY: Jack Stevens
Jack Stevens
Councilmember, 6th District

~~INFORMATION TECHNOLOGY & GENERAL SERVICES~~
~~RE REFERRED MAR 10 2006~~
~~INFORMATION TECHNOLOGY & GENERAL SERVICES~~
ENERGY & ENVIRONMENT

John R. ...
TRADE, COMMERCE & TOURISM
ARTS, PARKS, HEALTH & AGING
AUDITS & GOVERNMENTAL EFFICIENCY