

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

This report is solely for the use of client personnel.
No part of it may be circulated, quoted, or reproduced
for distribution outside the client organization
without prior written approval from KH CONSULTING GROUP (KH).
This material was used by KH during an oral presentation and,
therefore, is not a complete record of the discussion.

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

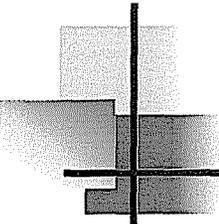
January 25, 2005

This report is solely for the use of client personnel.
No part of it may be circulated, quoted, or reproduced
for distribution outside the client organization
without prior written approval from KH CONSULTING GROUP (KH).
This material was used by KH during an oral presentation and,
therefore, is not a complete record of the discussion.

Central Issue

Overly Transactional Focus:

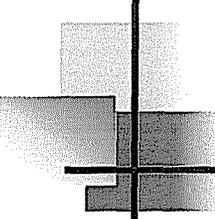
- No one is consistently and thoroughly considering policy direction.
- There is over-review of small and medium-size transactions.
- Sporadic review of key City real property issues occurs.



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.



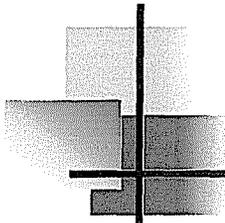
True Asset Management

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



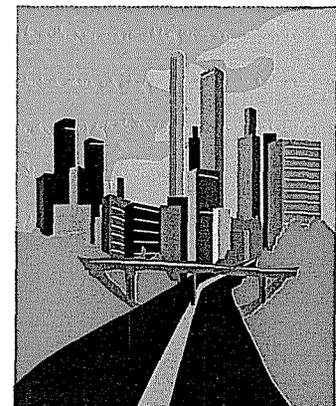
What to do...

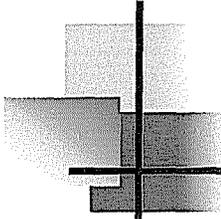
- Focus MFC and City Council on strategic and policy issues*
 - Delegate decisions involving less than a certain dollar value to General Services Department

- 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*





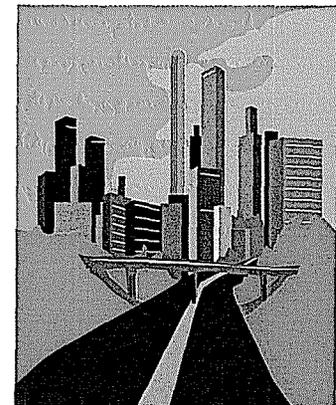
Proposed Guidelines

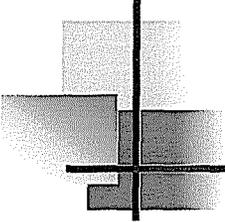
City Property...

- 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*





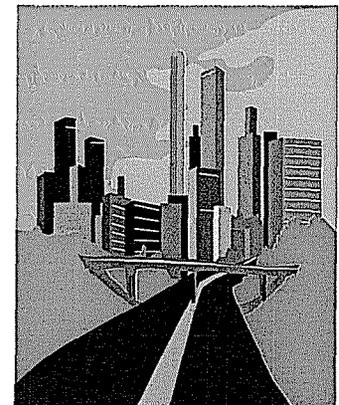
Strategic Property Management

KH
CONSULTING
GROUP
MANAGEMENT
CONSULTANTS

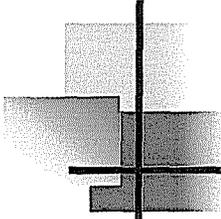
- Five-year Property Plan
- Property Database, Including All City Property
- Lease Management Program
- Preventive Maintenance Program
- Day-to-day Building Management

What to do...

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



Focus Policymakers on Policy



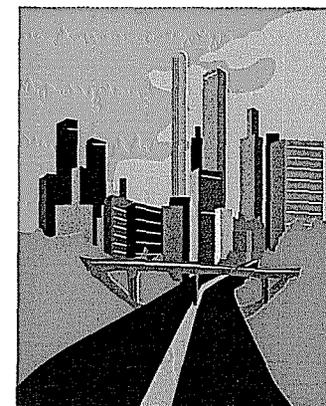
- A great percentage of MFC items relate to:
 - Routine renewals
 - Administrative items
 - Other minor items
- Commissions reportedly focus primarily on transaction approvals, not policy directives
- City makes spending decisions without knowing:
 - What future expenditures will be needed for that property
 - 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.

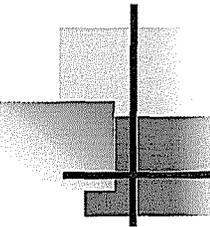
Policies in Need of Review or Presentation

- 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*





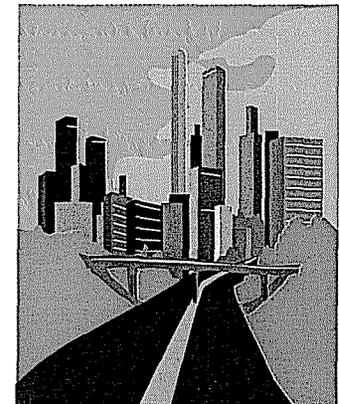
Maximize Financial Value

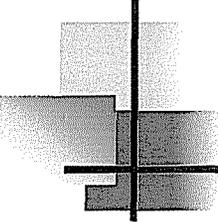
- Use best practices from other jurisdictions
 - For example: Trading underutilized City properties
- Set up joint ventures with private developers to provide revenues or offset maintenance costs
- Provide incentives for Departments to use less or less valuable space
- Focus on the City's credibility 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:

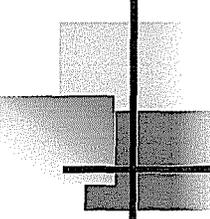
- Projected capital requirements**
- Available or excess square footage**

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

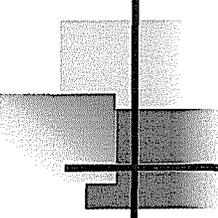
C. Lease Management Program

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.***