

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Council File No. 12-1549

Council District: ALL

To: The Honorable Members of the City Council

From: Miguel A. Santana, City Administrative Officer  
Chair, Municipal Facilities Committee



Reference: Citywide Strategic Planning for Asset Management

Subject: **ASSET MANAGEMENT STRATEGIC PLANNING – RECOMMENDATIONS FOR  
EVALUATION OF CITY PROPERTIES FOR CITY USE AND ECONOMIC  
DEVELOPMENT**

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### SUMMARY

At its meeting of July 21, 2014, the Municipal Facilities Committee approved a report from my Office's Asset Management Strategic Planning Unit recommending actions intended to help advance the City's economic development efforts by establishing a procedure to evaluate and designate City-owned properties for economic development opportunities and other City purposes. The report also contains a discussion and recommendations related to dedicating eligible sale proceeds from economic development properties for future economic development purposes, and consideration of additional staff resources to EWDD to assist with implementation of the City's economic development goals concerning City property. This action is now transmitted for Mayor and Council consideration.

After the dissolution of the CRA/LA, the City initiated a number of efforts to enhance the City's capacity to support economic development projects and programs to meet its larger economic development goals of creating new jobs, attracting new businesses and industries, maximizing the City's assets, and increasing General Fund revenue. Such initiatives have included formation of the Asset Management Strategic Planning (AMSP) unit in the Office of the City Administrative Officer (CAO), establishment of a new Economic and Workforce Development Department (EWDD), preparation of a comprehensive study of the City's Asset Management practices, and a proposed contract with an economic development non-profit to coordinate with City efforts. Substantial progress has been made on each of these initiatives.

Given the City's ongoing challenge of providing funding for economic development programs, the City's real property portfolio currently represents its most significant asset to be leveraged to achieve economic development goals. Accordingly, the City has established the capability to sell or lease properties for economic development purposes to generate economic development benefits in addition to sale proceeds, as an alternative to the traditional surplus property process. Council has also vested AMSP with the role of strategic planning for City property, and EWDD with the role of managing and implementing economic development transactions. However, the City has not yet exercised this ability to sell properties for

economic development, and clear procedures for doing so have yet to be adopted. The recommendations contained in this report are intended to advance the City's economic development efforts by establishing procedures for the City's evaluation and designation of properties for economic development or other uses for City benefit. This evaluation process is proposed for all requests for the re-use of City properties, including improvements to existing municipal facilities, subsidized leases for non-profit entities, traditional sale of surplus properties, and use of properties for economic development.

### Proposed Evaluation Process

The procedures described here have the objective of establishing a transparent vetting process for the re-use of City properties, providing information crucial for Council consideration, and validating City decisions to ensure the City maximizes the public benefit of its real property assets. The following procedures are proposed for considering re-use possibilities for City properties:

1. **Request.** Council motion or request from the Mayor's office or department to evaluate the proposed re-use of a City property for economic development or other purposes.
2. **Evaluation.** AMSP, in consultation with EWDD, the General Services Department (GSD), the Council office, the Mayor's office, and the affected departments, evaluates properties for economic development potential, considering current and potential future uses. On an as-needed basis, AMSP can draw on third-party consultant expertise to validate assumptions and assist in feasibility analysis. AMSP's evaluation of properties will be guided by industry best management practices and the portfolio optimization framework provided by the PA Consulting Asset Management Study described in greater detail in this report's Background. AMSP recommendations to MFC will be supported by documented findings. Factors for evaluation of any property for potential re-use include, but are not limited to;
  - Municipal uses currently operating on site
  - Whether uses are necessary at this location, or can be relocated
  - Viable opportunities for relocation or co-location with other City uses
  - Whether the existing facility meets the needs of the City and community
  - Condition of existing facility
  - Opportunities to co-locate municipal uses with private uses
  - Marketability of property for private development
  - Comparable land values and likely development product types for private development
  - Utilization of property (available Floor Area Ratio)
  - Adjacent properties with development potential or plans
  - Availability of other funding sources for improvements
  - Potential for re-use to support City sector-based or community-based economic development goals
  - Opportunity for transit-oriented development (TOD)
3. **Committee and Council Determination.** Municipal Facilities Committee (MFC), composed of representatives from the CAO, the Chief Legislative Analyst, the Office of the Mayor, and, upon adoption of the current recommendations, EWDD, reviews AMSP recommendations and makes a determination based on consideration of factors regarding current uses on the property and future opportunities for development. MFC's recommended actions are forwarded to Council and Mayor for consideration.

4. **Designated uses.** Designated future uses could include continued use and investment in the property for City purposes, a traditional surplus procedure leading to auction or direct sale, a lease by a qualified non-profit entity, proposed joint-use of the property with both City and private uses, and sale or lease of the property for economic development. In addition, a number of properties owned by CRA/LA may be optioned for purchase by the City and designated as Future Development properties, for Council consideration under separate cover (C. F. #14-0425).
5. **Implementation.** Based on the nature of the proposed re-use of the property, MFC recommendations will assign project management and oversight roles to appropriate City departments or entities for implementation. Assigned departments will return to MFC and Council for approvals, with the concurrence of the Mayor, for investment in or conveyance of property.

These procedures are graphically represented with more detail in Attachment A. This proposed process would not apply to transactional leases for City departments or space assignments for municipal use, to "remnant" properties pursuant to Administrative Code Section 7.27.1, or to properties that have already been designated for a particular use pursuant to the requirements of a funding source used for acquisition or improvements.

#### Dedication of Proceeds for Economic Development Trust Fund

Since the formation of EWDD, the City has struggled to provide a dedicated funding source for economic development projects and programs. Although Council has considered providing an on-going funding stream from the annual return of former CRA/LA tax increment funds (C. F. #13-1090), to date those funds have been used to address General Fund budget needs. Our office, in conjunction with the Chief Legislative Analyst, have been directed to report back on this issue under separate cover. The proposed actions in this report would create an Economic Development Trust Fund (EDTF), and would direct eligible sale or lease proceeds into this new EDTF. Creation of such a dedicated funding source for economic development is consistent with national best management practices, as identified in an HR&A consultant report on Economic Development in Los Angeles, commissioned by the City (C. F. #08-3050).

Proceeds from properties purchased with special funds, such as the Special Parking Revenue Fund or Solid Waste Revenue Fund, which are required to be repaid in full to those sources, would be ineligible for the EDTF. The EDTF would collect proceeds only from the sale of economic development properties. Proceeds from the sale of surplus properties would continue to be split evenly between the General Fund and the Council District Real Property Trust Fund, per existing policy.

EDTF revenues shall be expended solely on public infrastructure, development subsidies, operational subsidies, or technical assistance that support economic development projects or programs. EDTF monies will be administered by EWDD, whose recommendations for expenditures shall be authorized by the Council with the concurrence of the Mayor's office.

#### Amendments to Ordinance

Council Ordinance 182500 established EWDD and gave the department the authority to control and convey City properties that are intended for purposes that achieve the City's economic development goals. The current recommendations establish a process through which the City will identify the economic development properties over which EWDD will have jurisdiction. In order to clarify the ordinance and

provide flexibility, this office recommends that the ordinance be revised to state that the City, not just EWDD, is authorized to convey property interests for economic development purposes. This change is necessary to be consistent with the recommendations in this report and the City's stated intent to contract with an economic development nonprofit entity to provide real estate services to the City (CF#08-3050).

#### Staffing Resources

AMSP intends to develop a comprehensive strategic asset plan, aligning with the citywide economic development strategy being developed by EWDD, in collaboration with each Council District. However, at the current staffing levels in AMSP and EWDD, the City's capacity for development of such comprehensive plans is limited. Until additional staffing resources can be identified, AMSP will work closely with Council offices to develop priorities and to concentrate on projects with the most significant development potential in alignment with citywide goals, Mayoral initiatives, and Council District objectives.

In consideration that EWDD is assuming responsibilities to utilize appropriate City properties for economic development that are new to the City family, this office recommends consideration of additional or reorganized staff resources in EWDD's economic development division, to increase capacity to assist with evaluation of properties, and to implement the disposition and development of economic development properties.

#### **RECOMMENDATIONS**

That the Council, subject to the approval of the Mayor:

1. Instruct heads of all departments, with the exception of the Harbor, Airports and Water and Power, to submit all requests for utilization, acquisition, relocation, transfer or disposition of City property to the Municipal Facilities Committee through the Asset Management Strategic Planning Unit, for consideration as outlined in this report;
2. Authorize the Municipal Facilities Committee to designate qualified City properties for economic development or other use, and to assign to appropriate City departments or other entity for implementation, subject to Council approval and concurrence of the Mayor, all in conformance with the procedures described in this report;
3. Request the City Attorney's Office to prepare an ordinance to establish a new interest-bearing Economic Development Trust Fund (EDTF), to be administered by the Economic and Workforce Development Department (EWDD), to receive eligible proceeds from the sale or lease of City property for economic development purposes;
4. Authorize the Controller to establish separate accounts in the new EDTF for each economic development property, pursuant to accounting instructions to be provided by the Economic and Workforce Development Department. The accounts will be authorized to collect the appropriate portion of sale or lease proceeds from the sale of economic development properties;
5. Authorize the Economic and Workforce Development Department to serve as Fund Administrator of the new Economic Development Trust Fund and to administer the disbursement of such funds

for economic development projects and programs, with recommended appropriations to be approved by Council with Mayor concurrence;

6. Instruct the Office of the City Administrative Officer and EWDD to report to Council with proposed staffing recommendations to assist with implementation of the City's economic development goals concerning City property;
7. Direct the City Attorney's Office to draft an amendment to the EWDD Ordinance 182500 to authorize the City, in addition to EWDD, to convey interests in City real property for economic development purposes;
8. Direct the Office of the City Administrative Officer, Asset Management Strategic Planning unit, to report annually to the Mayor and Council detailing property evaluations requested, under review, and completed, and an update on the status of all properties being reused or redeveloped for non-municipal purposes; and
9. Appoint the General Manager of EWDD, or designee, as an ex-officio, non-voting member of the Municipal Facilities Committee.

## **FISCAL IMPACT STATEMENT**

The recommendations have no immediate impact on the General Fund. The recommended actions do propose that future proceeds from properties sold or leased for economic development purposes be dedicated to a new Economic Development Trust Fund. To the extent that City properties may be sold for economic development purposes rather than as surplus properties, General Fund and Real Property Trust Fund revenues would be proportionately reduced, as the balance of proceeds would be dedicated to the Economic Development Trust Fund.

The recommended actions also instruct CAO and EWDD to prepare a report considering potential additional or reorganized staffing resources to evaluate and implement the disposition and development of City properties for economic development. That report will include a discussion of any cost implications associated with staffing recommendations.

## **BACKGROUND**

### Asset Management Strategic Planning Unit

Council established the Asset Management Strategic Planning unit in the Office of the CAO to identify opportunities, provide the framework for, and perform preliminary analysis on asset management planning needs (C. F. #12-1549). Distinct from the role of GSD, which acts as the City's property manager and performs real estate transactional functions, AMSP's role is to develop and implement a strategic planning framework to advise City decisions on the potential re-use of City-owned property for municipal or economic development purposes. Specific responsibilities/charges of the AMSP Unit are:

1. Partner City asset management needs with economic development opportunities;
2. Identify highest-benefit options for the disposition/development of surplus property;
3. Evaluate consolidation of City operations into appropriate space to reduce City costs;

4. Develop and implement multiple long-term strategic plans for municipal use; and
5. Work with other governmental entities and the private sector on economic development as it applies to real estate assets.

Since formation in Summer 2013, AMSP has filled its authorized positions, developed a work program of strategic planning projects including, among others, the Los Angeles Mall and former Parker Center site, Lincoln Heights Jail, and the West LA Civic Center, represented the CAO in the City's efforts to receive Government Use and Future Development properties, tax increment bond funds and transferrable development rights from the former redevelopment agency, and initiated a request for qualifications to establish a city-wide pool of economic development consultants. Moving forward, the current recommendations will facilitate AMSP's work with Council Offices to identify priority re-use opportunities, and help establish the framework within which the City will identify economic development opportunities and move toward implementation.

#### Asset Management Study

AMSP has engaged consultant team PA Consulting and Cushman and Wakefield to provide an analysis of the City's current asset management procedures and capacity, and to provide recommendations for improvements. One of the critical deliverables of the Asset Management Study is a framework for optimization of the City's real estate portfolio, including industry best practices, and proforma templates and other tools for analysis of City redevelopment opportunities. The Asset Management Study is expected to be completed in July 2014.

#### Assignment to EWDD, City-wide Economic Development Non-Profit Entity, and other Departments

Council has indicated support, with Mayoral concurrence, for the development of a new economic development structure that combines City resources (primarily EWDD) with those of a non-profit Citywide economic development non-profit entity (CEDN) (CF#08-3050). The strength of this model lies in combining City staff's institutional knowledge of established processes with the flexibility and market-orientation of a separate non-profit entity. While EWDD exists today as a functioning City Department, the CEDN is currently in development.

For properties designated for economic development use, it is anticipated that implementation may be performed by teams represented by these two economic-development oriented entities, in addition to other appropriate City entities such as AMSP (for projects with joint uses with municipal uses), Housing and Community Investment Department (for projects with an affordable housing component), or Public Works Bureau of Engineering and or General Services Construction Forces Division (for municipal projects in which facilities will be rehabilitated or constructed). Accordingly, each MFC and Council approval to designate a property for economic development purposes will assign a lead and cross-departmental team for implementation. Any proposals for future transactions will return to MFC, Council, and Mayor, as necessary, for consideration.

#### Consultant Support for AMSP and other City Economic Development Efforts

In February 2014, AMSP released a Request for Qualifications (RFQ) to develop short lists of pre-qualified consultants in five service categories related to asset management and economic development:, including 1. Real Estate Services and Brokerage, 2. Project Feasibility and Underwriting, 3. Economic Development Analysis, 4. Community Outreach, and 5. Master Planning and Site Planning. A total of 37 submissions were received and evaluated by a review panel of real estate and economic development professionals

from EWDD, Housing and Community Investment Department, City Planning, Public Works Bureau of Engineering, Harbor Department, and CAO. Firms deemed "prequalified" will be placed on a short list, to provide services on an as-needed basis through individual contracts awarded after a request for bids. Shortlisted firms will be available to provide services to all City Departments engaged in asset management and economic development. A report with recommendations on this topic from this office is forthcoming under separate cover.

Alignment with Economic Development Recommendations from HR&A

In December 2012, the City engaged a consultant, HR&A Advisors, Inc., with support from ICF International and Renata Simril (HR&A Team), to help the City develop the tools and organizational structure to meet the City's larger economic development goals of creating new jobs, attracting new businesses and industries, maximizing the City's assets, and increasing General Fund revenue. The HR&A Team report, provided to the Ad Hoc Committee on Economic Development Implementation on December 11, 2012 (C. F. #08-3050) recommended that the City "align its real estate assets with its economic development responsibilities, develop significant real estate expertise, and make a concerted effort to clarify policies, leadership, and authority related to the sale, lease, and redevelopment of City assets, including better coordination with proprietary departments. Assets with economic development potential need to be inventoried, and resources devoted to transforming them into revenue-generating projects for the City." This report's recommendations align closely with and are designed to implement these key findings by the HR&A Team.

by:



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Josh Rohmer, Principal Project Coordinator

**ATTACHMENT A: Asset Management Strategic Planning  
Asset Evaluation Framework**

