REAL PROPERTY MANAGEMENT &

DEVELOPMENT IN LOS ANGELES COUNTY

LOS ANGELES COUNTY CITIZEN'S ECONOMY &
EFFICIENCY COMMISSION

AUGUST, 1991

REAL PROPERTY MANAGEMENT & DEVELOPMENT

IN LOS ANGELES COUNTY

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I. SUMMARY

For the past eighteen months the Real Property Management & Development Task Force of the Los Angeles County Citizen's Economy & Efficiency Commission has been reviewing Los Angeles County government's management of its real property assets. Along with that effort, the task force reviewed the real property management organizations and practices of a number of other governmental jurisdictions, and researched current publications on real estate practices by authorities in that field.

The Commission has concluded that Los Angeles County government:

o Has been a leader in developing its most valuable real property assets to produce additional revenues.

o Can improve management of its real property assets by adopting a <u>more comprehensive system</u> which clearly states the Board's objectives, assigns executive level accountability and involvement, assigns more definitive organizational responsibilities, identifies all significant asset opportunities, and provides incentives for increased departmental participation.

o Needs to improve its management of its other real property assets by applying economic incentives, and has plans to do so.

Specifically, the Chief Administrative Officer plans to install a market-based rent program in Fiscal Year 1992-93. We strongly support this plan, and believe it will be an important first step in establishing incentives to encourage economic use of County property. We make recommendations to expand this program under Recommendation 1.

Concept of Economic Management of Real Property Assets

The Commission believes the key components of its recommendations are that the County understand the economic costs of holding its real estate, and that there be economic incentives for the businesslike management of the County's real property.

Under this system departments pay rent for property use, but also receive an equal amount of additional funds to pay for it. The net initial effect on both a department's and the County's budget is zero. This system allows a department to review the costs of real property use, make businesslike judgements concerning those costs, thus giving the department an incentive to manage and where possible save on those costs. To the extent the department can save money, it can then use those savings to improve its services to the public.

From a County-wide perspective, when a department uses less real property assets, these can be made available to another department thus avoiding costs of leasing additional space; or can be rented out for added revenue; or sold to convert real property assets to liquid assets which can be invested.

The current system does not have this incentive because departments are not made aware of the costs for real property use.

The Commission recommends that the Board of Supervisors approve the following recommendations we believe necessary to implement a comprehensive Real Property Management Program.

1) **The Board should adopt and issue a policy statement for a comprehensive Real Property Management Program, which clearly states its objectives, assigns responsibilities for their accomplishment, and establishes periodic follow-up for results.**

   We believe the policy statement should acknowledge that the County is a significant owner and manager of real property assets; that these assets should be managed in a manner which is cost efficient and will result in savings which can be applied to department programs. We believe the economic utilization of the County's real property assets will produce, over a period of many years, large savings to the County.

   Certain County properties present opportunities to increase value and produce additional revenues which are needed to help fund basic essential public services. In those cases the proposed alternative uses must be compatible with, or not interfere with the primary program use of the property.

   Our overall objective is to encourage County management to make rational economic use of their real property assets.

2) **A Real Property Management Steering Committee should be established to assure department head level accountability and involvement in the Real Property Management Program.**

   The Steering Committee should meet at least quarterly to direct the Real Property Management Program by considering property management and development policy issues, developing strategy, generating inter-departmental support and coordination, setting priorities, reviewing proposals, monitoring progress, suggesting alternatives, allocating resources, and reporting to the Board.

3) **The County organizations engaged in management and development of real property assets should remain in their current reporting relationships, but additional and clearer responsibilities should be assigned to them. The organizations also need to be linked through information systems to share a common property inventory and other data needed to manage the County's real property holdings, and through other methods of regular communication and coordination.**

   The County organizations engaged in management and development of its real property need to be assigned additional responsibilities in order to implement a more comprehensive real property management program.

The added responsibilities include: development and maintenance of suitable inventories of real property holdings; review of all relevant property holdings of value on a continuing basis to determine the appropriate uses of the property; pro-actively providing real property expertise to County departments from in-house or outside expertise.

4) **The County needs to develop a current and accurate inventory of its real property holdings. The inventory would include all relevant properties of value, in order to identify opportunities to more economically manage the property, to dispose of it, or to increase its value. This inventory should contain all property data needed to make informed decisions for management of the property.**

   In the early 1980's, the County did an informal property survey, which identified over twenty high-potential value properties, which are now assigned for development purposes to the Asset Development Division (CAO). Currently, there is no centralized inventory of all relevant County properties of value, which contains all the data necessary for identification of opportunities.

5) **County departments should be provided adequate incentives to actively participate in the Real Property Management Program. We believe departments should be allowed to retain all their rent savings, and a reasonable percentage of any additional revenues produced from their existing holdings, with the percentage determined by the Real Property Management Steering Committee.**

   County departments are very busy with their program responsibilities, and many are not usually experts in the profession of real property management. Providing sufficient incentives, such as rent savings from more economic utilization of their space, and a percentage of additional revenues produced, are essential in attaining effective departmental participation and cooperation.

In short, the Commission recommends that the County adopt a comprehensive real property management program which contains these key elements:

- o *Board policy statement, which states objectives, responsibilities, and establishes follow-up for results.*

- o *A market based rent program for County property to encourage economic decisions and uses.*

- o *A Real Property Management Steering Committee to ensure department head level accountability and involvement.*

- o *Assignment of additional and clearer responsibilities to the existing County real property organizations, linked by common information systems.*

o Current, accurate, useful inventories of relevant County properties of value.

o Department cost savings and revenue retention incentives to encourage their participation.

o Review of all relevant County property holdings on a continuing basis to determine appropriate uses.

o Real property expertise provided on a pro-active basis from in-house or outside sources.

II. INTRODUCTION

A. Background

In December, 1988, the Los Angeles County Economy & Efficiency Commission issued a report to the Los Angeles County Board of Supervisors entitled Role of the Chief Administrative Office, and Asset Management in Los Angeles County. The report recommended certain changes in the responsibilities and organization of the Chief Administrative Office and of some County departments. It also recommended the establishment of an asset management organization, initially reporting to a newly created Internal Services Department. The recommended asset management organization included certain major County land holdings from various departments, and would be responsible for developing and implementing a comprehensive, strategic County-wide asset management plan which would optimize revenue returns from the County's real estate holdings, other major physical assets, and professional capabilities.

In January, 1989, the Board accepted and implemented much of the recommendations, but requested the Economy & Efficiency Commission "...to recommend whether a centralized Asset Management Unit should be assigned to the Internal Services Agency or the Chief Administrative Office, or established as a separate operation...,,

Because of the demands of other Board assigned projects, the Commission has intermittently studied the Board request as to how best to structure an asset management organization. In February, 1990, the Commission initiated a new Real Property Management Task Force which has actively pursued this issue, and has accumulated a great deal more authoritative information on this subject. This report is the Commission's response to the January, 1989 Board request.

B. Methodology

The real property management task force engaged in an extensive information gathering process by interviewing Los Angeles County and other government and private personnel who are engaged in, or who are authorities in real property management and development. We also surveyed most of the current literature in this field, and contacted many of their authors for further discussion and clarification. Appendices V. B., C., D., and E list our contacts and references.

The task force also attempted to determine the extent and approximate value of the County's real property holdings. Because County sources could not provide a centralized inventory, we surveyed major land-holding County departments. Given our limited resources and the vast extent of County holdings, we could not determine a complete inventory. The data we were able to develop is shown in Appendix V.A.

C. Report Format

This report is organized in five sections. Section I. summarizes our findings and the five major recommendations; Section II. supplies the background, methodology, and format of this report; Section III. describes the current conditions which exist within the County and why the County should make changes; Section IV. defines our recommendations in more detail; and Section V. is appendices of County property inventories, a list of people interviewed for this report, a bibliography of references, and summaries of selected references.

III. SITUATION ANALYSIS AND FINDINGS

Increased Emphasis on Real Property as a Valuable Asset

Our task force conducted extensive research into the literature on real property management and development, and held discussions with authorities in the field. We discovered a very strong trend over the past ten years in both private and government organizations to recognize their real property holdings as assets with intrinsic value apart from their current uses.

This trend is attributed to the extreme competitive pressures many private businesses have been under; and the pressures governments have experienced to meet increasing demands for services in the face of restricted sources of revenue. As a result of such pressures, both business and government have searched for additional ways to operate more efficiently, and to better utilize their existing resources.

The traditional view has been that property was defined only by its current usage, and management of the property was primarily custodial and unchanging. Business and government have begun to realize that their property holdings often represent a resource with substantial potential to increase value and revenue, and management of property is becoming more economic and entrepreneurial.

The literature we researched and authorities we contacted were quite specific as to what factors are necessary to achieve a comprehensive real property management and development program. We have listed our sources in Appendices V.B. and D., and provided synopses of their recommendations in Appendix V.C.

Los Angeles County's Real Property Holdings

Los Angeles County is a very large holder of property by ownership, lease, operating agreement, and other arrangements. The Commission was not able to find within County government a centralized inventory of all County land holdings. We then performed our own limited survey of the fourteen major land-holding departments. The data we developed indicates the County owns or holds under various arrangements over 100,000 acres of land, of which roughly 67% is held by departments for recreational, cultural, and educational purposes. (See Appendix V.A.)

The Real Property Branch of the Internal Services Department maintains a County space inventory of structures the County owns or leases. The reported total number of County structures is 4,355 occupying over 52 million square feet, and encompasses a wide variety of structures from office buildings to lifeguard stands. Of this total, the County owns 3,575 structures, with a total square footage of 18.4 million square feet; and leases under various arrangements about 34 million square feet.

Obviously, the County has a major interest in the economic and efficient management of its very large property holdings.

We believe the absence of a suitable central inventory of the County's land holdings which have significant potential value is a major need which should be addressed. Further, the County's space inventory of structures is limited to information suitable for management of the property under current conditions, but does not contain information which could be used to identify opportunities for alternative uses.

We recognize that much of the County's land and structures do not have potential alternative value because of location or current dedicated use. But we have learned from our research that an up-to-date and accurate inventory of property holdings is a must for an effective property management program. Sources inside the County have also estimated that an additional 25 to 30% (above what has currently been identified) of property suitable for alternative usage could be identified from suitable inventories.

Los Angeles County's Property Development

Los Angeles County is generally regarded as one of the governmental leaders in actively pursuing opportunities to increase value and revenues from much of its real property holdings. Most of this has been done by ground leases with private developers and lessees for selected County properties for uses which are compatible with existing public purposes, and on property which is surplus to current County needs.

Some notable successful examples are: The development of the Marina del Rey complex and certain beach properties by the Department of Beaches & Harbors; the identification of more than twenty County properties with high value potential and their assignment for development and management to the Asset Development Division of the Chief Administrative Office; the leasing of certain facilities by the County departments of Parks & Recreation and Public Works to produce additional revenues; and the creation of development proposals to generate lease revenues for the County and for other governmental entities by the Development Division of the Community Development Commission.

Our task force has noticed, however, that some County properties which have been identified as having high potential value a number of years before are still under-utilized or sitting vacant. We refer to these sites:

- The former Pan Pacific Auditorium site on Beverly Blvd., Los Angeles.
- The grounds surrounding the Harbor-UCLA Medical Center in Torrance.
- The County parking lot on North Spring Street between Alpine Street, and Ord Street, Los Angeles.

We recognize that developing suitable proposals for a site, and obtaining necessary approvals and permits is often a lengthy, tortuous process. The Pan Pacific Auditorium is an example of this. The County planned a mixed use commercial development for the site, coupled with the restoration of the deteriorated auditorium and its historical Art Deco facade. The commercial development was to pay for the auditorium restoration, and also produce revenue for the County, projected at $50 million (current) dollars over a 55 year lease term.

The County received a number of attractive proposals for the site. After selecting one of these, three public neighborhood meetings were held to explain the plans to the local residents, a number of whom were in opposition. The auditorium and its facade burned down at this point, placing the project on hold. Subsequently, the State Department of Parks, owner of the site (the County holds an operating agreement), limited its approval for development on the site to recreational and historical purposes. This occurred despite the Third District's attempts to develop alternative plans which would permit some commercial purposes.

We believe this shows the County has made good faith efforts to accomplish something productive with this site. We believe it also shows that in difficult cases such as this, persistence is needed to bring the project to a successful conclusion. Continuing efforts to change the position of the State Department of Parks, by perhaps including a reconstruction of the original auditorium, might be successful. The County does have a substantial interest in this, as shown by the revenue projection cited above.

We believe that where the County's real property organizations have run into opposition either internally from within the County organizations, or externally from the public, there should be more involvement and attention from the department head level of County government, and from the Board of Supervisors.

Therefore, we recommend in Section IV. of this report that the Board issue a policy statement stating its objectives, and that a Real Property Management Steering Committee be established to bring department head level attention to these issues and concerns.

The County organizations may also need to increase their efforts to negotiate acceptable solutions to local concerns and possible opposition to Board approved projects.

The Board, in particular, needs to make clear to its constituents the need for the County to raise revenues, preferably by better utilization of its resources than by additional taxes and fees, in order to meet the needs for public services.

We believe that making the facts more visible will lead to greater clarification of the issues for the public, and result in better understanding and acceptance of actions the County needs to take.

Los Angeles County's Property Management

The Real Property Branch of the Internal Services Department provides centralized real estate services to the rest of the County organization for property acquisition, valuation, leasing, property management, space planning, relocation, and disposition. They maintain a Building Description Report inventory of County structures.

The Real Property Branch also administers a centralized County rent budget. Because the rent budget is centralized, County departments are not charged directly against their own budgets for the space they occupy. Subvened County departments, which receive funding from state or federal sources, have most of their rent paid by those sources, and usually occupy leased space. General Fund financed departments usually occupy County owned space. We have been told by those who manage the County's space planning program that this sometimes results in departments not using space efficiently, either by holding on to more space than is necessary, or occupying space which is more costly than is needed.

Some examples of this we have observed or been informed of are:

- A floor in the County Hall of Records, a prime downtown location, was vacant for many months within the past three years.

- The Los Angeles County Employee's Retirement Association recently relocated from space in the Hall of Administration which had been expensively remodeled for their use less than three years before.

- The Chief Administrative Officer has recognized the need for reduction of current space utilized by County departments and has assigned his staff to develop plans to achieve this. (In addition to the market-based rent program being developed.)

- The Treasurer & Tax Collector informed us at our June 5, 1991 Commission meeting that she believed her department could serve the taxpayers who come to the tax collector's Hall of Administration offices better, and with less rent expense, by re-locating to suburban locations.

In the past year, the Chief Administrative Office has initiated a Building Proprietor Program, which de-centralizes responsibilities for operation and maintenance of County occupied buildings from the Internal Services Department to a "Lead Tenant" for each building. Other tenants in each building share in the costs of operation and maintenance proportional to their level of occupancy.

We have been advised the Chief Administrative Office is developing a plan to directly charge building occupants a market-based rent beginning in the 1992-93 Fiscal Year. This would replace the current centralized rent budgeting system. The objective of the change is to encourage departments occupying space to make more economic decisions on the costs associated with the amount of space they occupy, and where it is located.

We support this plan of the Chief Administrative Office, and believe that establishing occupancy charges for County departments is a most important component of a comprehensive property management program. We make recommendations in Section IV. of this report that such a system should function as much like a private sector lease as possible.

We also recommend in Section IV. that the rental program should be expanded, over a period of time, to include other County properties of value.

Los Angeles County's Real Property Organizations

Los Angeles County government has a number of organizations engaged in management and development of its real property holdings. The major players and their primary responsibilities are:

- Asset Development Division of the Chief Administrative Office - responsible for development and management of about 20 high potential value properties; provides advice and consultation upon request to County departments.

- Real Property Branch of the Internal Services Department - provides real property services to other County departments on a fee basis for acquisition, valuation, leasing, property management, space planning, relocation, and disposition.

- Beaches & Harbors Department - responsible for the development and management of the Marina del Rey complex, and of certain beach properties.

- Development Division of the Community Development Commission - provides developmental services to Los Angeles County, other public agencies and private clients.

- All other County departments - responsible for the identification of their properties with significant value, and their development to produce additional revenue, consistent with the assigned public purpose of the property.

The Economy & Efficiency Commission believes the County has been effective with the current organization arrangements, but observe the following needs exist:

- There is no overall assigned accountability for overseeing a County-wide Real Property Management Program. This was pointed out in some detail in the Commission's December, 1988 report on The Role of the Chief Administrative Office, and Asset Management in Los Angeles County. We believe there should be department head level accountability for, and involvement in the management of the County's real property assets.

- The different organizations have, in some cases, similar responsibilities, such as providing advice or consultation for developmental services. They also engage in related activities, which would benefit from closer coordination, such as sharing information on property leasing, acquisition, or development opportunities. We have been told that the different units do communicate with each other, but this is on an ad hoc, informal basis. We believe more is needed, and the organizations should be linked closer together by more formal organization and communication arrangements, and by shared information systems. One organization should be assigned a lead position to recommend and implement a County-wide plan and to coordinate activities.

- The current system for providing developmental advice and services to departments needs to be re-examined. Currently, departments are held responsible for identifying and developing their properties, which have potential for producing additional revenue, consistent with their assigned public purpose. But most departments are ill equipped to effectively do this because they lack the internal developmental expertise, and their primary attention is focused on providing their program services.

  The Asset Development Division (CAO) and the Development Division (CDC) will, upon request, provide advice, services, or refer outside consultants to departments. This still leaves departments somewhat unsure as to what course they should take. We believe that a more formal system should be established which better defines who is responsible for providing advice. The County also should consider providing in-house staff expertise such as Orange County and some other jurisdictions do. The cost of such in-house services could be paid from the additional revenues developed for departments.

IV. RECOMMENDATIONS

In addressing the findings in Section III. of this report, the Economy & Efficiency Commission makes the following recommendations:

A. Need for Board Policy Statement

Recommendation 1):

The Board should adopt and issue a policy statement for a comprehensive Real Property Management Program, which clearly states its objectives, assigns responsibilities for their accomplishment, and establishes periodic follow-up for results.

The Los Angeles County Board of Supervisors has approved previous actions for the management of its property but we believe there is a need to state explicitly the objectives, the assignment of responsibilities, and to establish follow up for results for a comprehensive County-wide Real Property Management Program. This should be the first component of a comprehensive system.

The statement should explain the necessary linkage between meeting the demands for public services by better utilization of the County's current real property assets.

The policy statement should make the following points:

- Los Angeles County is a holder and manager of real property assets,

- The County has a need to find ways to fund its public service programs in the face of restricted sources of income,

- This should be done by more efficient and economic utilization of its assets than by increasing taxes and fees,

- Therefore, the County should seek ways to increase the value and potential for revenue from its real property assets under conditions laid down under State Code Article 7.5, Development of Public Property (1983).

- The County's Chief Administrative Officer is assigned overall responsibility for implementing the Real Property Management Program,

- County department heads are assigned responsibility for the efficient management of their use of space,

- Part of the performance evaluation of the Chief Administrative Officer and of County department heads will be dependent on how effectively they manage their real property assets,

- The Chief Administrative Officer will establish a program that assigns direct charges for occupancy of County owned or leased property, and

Board on the progress of the Real Property Management Program in meeting its goals of optimizing the use of County owned and leased property, and maximizing its value and potential to increase revenue, consistent with its public purpose.

Concept of Economic Management of Real Property Assets

As stated earlier, the Commission believes the key components of its recommendations are that the County understand the economic costs of holding its real estate, and that there be economic incentives for the business like management of the County's real property.

Under this system departments pay rent for property use, but also receive an equal amount of additional funds to pay for it. The net initial effect on both a department's and the County's budget is zero. This system allows a department to review the costs of real property use, make business like judgements concerning those costs, thus giving the department an incentive to manage and where possible save on those costs. To the extent the department can save money, it can then use those savings to improve its services to the public, such as additional health care workers or facilities; additional recreational or educational programs; increased hours at service facilities; and the like.

From a County-wide perspective, when a department uses less real property assets, these can be made available to another department thus avoiding costs of leasing additional space; or can be rented out for added revenue; or sold to convert real property assets to liquid assets which can be invested.

The current system does not have this incentive because departments are not made aware of the costs for real property use.

Market Based Rent Program

Currently, the County rent budget is centrally administered by the Real Property Branch of the Internal Services Department, and County departments are not directly charged for space they occupy. The Chief Administrative Office is planning to implement a market based rent program in Fiscal Year 1992-93. As indicated above, under this program County departments will receive a rent budget allocation, and will be charged rent for the commercial space they occupy. This would have no net effect on departments which make no changes. But departments which reduce their rent expenses by better utilization of their space, or by re-locating to more economical space, would be permitted to retain their cost savings for use in their program budgets. We support this effort, and believe it is a most important component in setting up incentives for economically rational decisions.

We recommend that the planned market-based rent program should be as much like a private sector program as possible. Departments should sign leases with the proprietors of the buildings they occupy. If a lessee wishes to vacate the building, there should be a notification period during which the proprietor can seek a new tenant. If a new tenant is not found and a lessee vacates, then the lessee should be liable for rental charges for a limited additional period of time, after which the proprietor would absorb the costs. Without this provision, the proprietor would not be motivated to aggressively seek a new tenant.

The planned program will include office space, and the inclusion of warehouse space is under consideration. We recommend that it also be included.

We recommend that the County go further and recognize that there are economic costs associated with the holding and use of all County properties, which should also be phased into the planned program over a period of time. This would stimulate consideration of alternatives to reduce property-holding costs, which savings could be used for improved levels of program services to the public. Only certain properties with restricted uses should be excluded from the program.

Under this system County management, the Board of Supervisors, and the tax-paying public would better understand and appreciate the property costs associated with the broad spectrum of public services provided by County government: This would open up consideration for alternative actions such as property swaps, movement to less costly real estate, and actions to reduce costs or increase revenues. Currently, such alternative actions may not be considered because property costs are "hidden" and not recognized, and current usage of property tends to be an unchanging given.

De-Centralization of Property Management Functions

As this report recommends, departments will take responsibility for managing their property, and space they occupy. Since most departments do not possess expertise in dealing with real estate matters, they will contract with other County departments or private firms which have the expertise, or attempt to do it in-house.

We caution that de-centralization of all property management functions could be inefficient and costly. For example, departments which manage their own space planning might acquire property without knowing if another department had suitable surplus property available, or might dispose of property which another department could use. Further, departments might bid against each other for the same property they both want to acquire, or negotiate unfavorable leases due to inexperience.

Therefore, we recommend a centralized space planning capability be maintained which would supply a central point of property information and coordination which departments would be required to consult before taking unilateral actions.

The County's Role in Land Development

The Commission gave consideration to the issue of whether the County has an appropriate role in developing its real property assets, in conjunction with private developers and lessees, to produce additional revenues. We reviewed the reasons given in the findings of the legislation which enabled Los Angeles County to enter into joint venture agreements or long term ground leases for certain properties (Article 7.5, Development of Public Property, 25515, 1983).

The legislative findings stated that Counties are faced with critical revenue shortages and need additional sources to provide basic and essential public services; and that Counties own property which is surplus to current needs which can be developed with private enterprises to produce additional revenues. Therefore, it concludes that residential, commercial, industrial, and cultural development of public property owned by Counties, under certain restricted conditions, constitutes a valid public purpose.

We agree with this conclusion, provided that the County continues to comply with the conditions and restrictions imposed under Article 7.5 cited above. (Article 7.5 is reproduced for reference at the beginning of Appendix V.D.) The conditions of Article 7.5 require that the Board of Supervisors must determine that selling, leasing, development or other contracts entered into for County properties must be of economic benefit to the County. Further restrictions are imposed for lease agreements, which require a determination that a greater public benefit will result from lease rather than from sale of the property. Also, provisions of Article 7.5 exclude all property acquired after January 1, 1984 by eminent domain proceedings.

The County must make a valid economic case that long term leasing of County property will result in greater economic benefit than sale at the current fair market price. The County uses independent outside authorities to develop the economic assumptions used in the comparative evaluations. Private real estate development experts are used to assist in the process of developing, evaluating, and selecting Requests For Proposals for County properties under consideration. The projects undertaken are public-private developments, with private investors and operators generating revenues and profits, and the County collecting rents, taxes, and fees. We endorse this process, provided that there continue to be safeguards including the use of independent private expertise, the inclusion of private sector interests, and the consideration of sale of the property where appropriate.

B. Need for Executive Level Accountability and Involvement

Recommendation 2):

A Real Property Management Steering Committee should be established to assure department head level accountability and involvement in the Real Property Management Program.

The Commission's Task Force on Real Property management believes the various County departments involved in the management and development of the County's real property assets are generally achieving their objectives. We believe however, that there is a need for more department head level accountability and involvement for these reasons:

- This is an important source of current and future cost savings and revenue for the County.

- To develop strategy and a plan to address all of the County's real property opportunities.

- The County's real property management organizations are fragmented and would benefit from department head level direction, support, and encouragement to cooperate.

- Identifying and pursuing the next level of potential development opportunities will be more difficult, and would benefit from department head level involvement.

- As pointed out in the Commission's December, 1988 report on The Role of the Chief Administrative Office, and Asset Management in Los Angeles County, there is no clearly defined single point of accountability for management of real property in the County. As recommended above, we believe the Chief Administrative Officer should be designated the accountable individual, and should chair the Steering Committee.

We recommend that the Real Property Management Steering Committee have the following membership and functions:

Members: Chief Administrative Officer, Chair
Director, Beaches & Harbors
Director, Community Development Commission
Director, Internal Services
Director, Parks & Recreation
Director, Public Works
(Other departments may participate on a rotating basis)

Functions: Consider policy issues, develop strategy, generate inter-departmental support and coordination, provide overall direction to the Real Estate Management & Development Program.

Set project priorities, review proposals, monitor progress, suggest alternative actions, share expertise, allocate resources necessary to achieve results.

Assign responsibilities to specific County organizations for carrying out real property programs; e.g., development of inventories; development and implementation of the market-based rent program; maintenance of space planning data; performing periodic property reviews; providing property development services; and the like.

Report to the Board on results, recommend Board actions to support the Program.

Our estimate is that the Real Property Management Steering Committee should meet at least on a quarterly basis, and hold other meetings as needed to achieve its objectives. This schedule should not burden the participants with heavy time demands.

The Steering Committee should periodically evaluate the costs associated with the real property programs to assure that they are justified by the benefits received from them.

Staff Support for the Steering Committee should be provided by the Asset Development Division (Chief Administrative Office), with the assistance and participation of the Real Property Branch (Internal Services Department) the Development Division (Community Development Commission), and Mapping and Property Management Division (Public Works Department). We recommend the Asset Development Division as the lead organization because of its location in the Chief Administrative Office, its resident expertise, and its long-term involvement in real property development in the County.

General Fund and Special Fund Properties

We recognize there are distinctions between General Fund and Special Fund properties held by various departments. Special Fund properties are constituted under the law with certain dedicated purposes, sources of income, restrictions on use, and restrictions on how revenue generated from those properties can be utilized. Income generated from Special Fund properties cannot be credited to the County's General Fund.

It is our intent that individual departments should continue to manage and administer their real property programs, whether they be General Fund or Special Fund properties. The County's organizations which provide property management and development services will continue to do so on demand from client departments. We do recommend, however, that all departments which have either General Fund or Special Fund properties, or both, should be subject to the review and evaluation of the Real Property Management Steering Committee and the Board of Supervisors, while recognizing that Special Fund properties do possess certain restrictions.

C. Need for Better Defined Organizational Responsibilities

Recommendation 3):

The County organizations engaged in management and development of real property assets should remain in their current reporting relationships, but additional and clearer responsibilities should be assigned to them. The organizations also need to be linked through information systems to share a common property inventory and other data needed to manage the County's real property holdings, and through other methods of regular communication and coordination.

As indicated earlier, the County's current organizations engaged in real property management and development are fragmented, and assigned to different parts of County Government. Each organization pursues its own objectives with communication occurring only on an informal, ad hoc basis.

Our Commission believes there is a need for a more focused effort to develop and carry out a strategic property management plan for the County, and to supply better coordination and communication.

IV. RECOMMENDATIONS (Cont'd)

We observed that certain needs are not being addressed. There should be clear assignments as to how these should be carried out in the future, for example:

- Development of a current, accurate inventory of all relevant County property with value.

- Performing a periodic review of all relevant County property with value to determine its appropriate use.

- Better define how development services will be provided to other County departments.

- Methods for regular communication and coordination.

As stated under Recommendation 2), we believe the Real Property Steering Committee is the body which should assign the appropriate organizations to carry out the real property programs.

We considered the advantages of recommending consolidation of the various units versus retaining the current reporting relationships with better defined responsibilities. We decided to recommend the second course, believing that this would be less traumatic for the organizations, would be more compatible with the County's de-centralized mode, and that development of linkages through shared information systems and communication and coordination could be effective.

The linkages we recommend would be information systems for a common inventory of County properties, and other reference data needed to manage the County's real property holdings. Communication and coordination can also be achieved by holding regular meetings of the involved groups to share information, discuss problems and to carry out the County-wide strategic plan approved by the Real Property Management Steering Committee. Support to the Steering Committee will also provide another opportunity to coordinate plans and actions.

We believe that one unit should be defined as having the lead position and responsibility to carry out this Program. We believe the Asset Development Division of the Chief Administrative Office is the most appropriate unit because it is located in the Chief Administrative Office, it has resident expertise in the property management and development areas, and it has a number of years experience dealing with major County real estate issues.

The Real Property Branch (Internal Services Department) the Development Division (Community Development Commission), and the Mapping and Property Management Division (Public Works Department) also have expertise and data to offer and should be assigned to participate and assist in implementing the Real Property Management Program.
To illustrate the above recommendations we have included in this section a Real Property Management and Development Matrix, which defines the current, and the additional recommended responsibilities of the involved units.

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The Commission believes this organization should be given a two-year period to implement working arrangements. The Commission wishes to reserve the right to recommend other organizational arrangements such as consolidation if results are not satisfactory at the end of the two-year period.

D. <u>Need for a Central Property Inventory</u>

Recommendation 4):

The County needs to develop a current and accurate inventory of its real property holdings. The inventory would include all relevant properties of value, in order to identify opportunities to more economically manage the property, to dispose of it, or to increase its value. This inventory should contain all property data needed to make informed decisions for its management.

The Commission's Real Property Management & Development Task Force was unable to locate within the County a source for a central inventory of all County land holdings. The Real Property Branch (Internal Services Department) does maintain a Building Description Report inventory of County structures, but this data is suitable for property management uses and is not adequate to identify opportunities for alternative uses. The current building inventory will also require additional information to be suitable for implementing the planned County market-based rent program.

In the early 1980's the County performed an informal property survey which identified over 20 high potential properties which are now assigned for development purposes to the Asset Development Division (Chief Administrative Office). These are properties with obvious alternative value such as parking lots or vacant land in the Civic Center area of Los Angeles. The identification of the next level of opportunities will not be so obvious, such as commercial buildings with under-utilized space, property with potential for combining with adjacent parcels, etc.

All of the authorities we have contacted during the course of this study stated that a current, accurate inventory with the data necessary for identifying opportunities is required to carry out a property management and development program. This inventory should contain, in addition to basic data such as location, the following:

- Size of land and structure.
- Cost of land and improvements.
- Zoning.
- Current use and projected use.
- Extent of use.
- Estimated value.

We recognize there will be costs associated with the development and maintenance of an inventory, but have been told of ways these can be minimized by methods such as using trained and supervised college interns to gather the base data. County real estate professionals can then perform visual inspections, and supply the evaluative factors such as projected uses and estimated value. Full appraisals should not be needed for the great majority of County property.

We recognize that judgement will be necessary in developing an inventory of relevant County property with value. This should not include all County property, such as lifeguard stands, park comfort stations, and the like. A suggested place to start would be with commercial properties such as offices, warehouses, maintenance yards, parking lots, etc.

E. Need for Incentives

Recommendation 5):

County departments should be provided adequate incentives to actively participate in the Real Property Management Program. We believe departments should be allowed to retain all their rent savings, and a reasonable percentage of any additional revenues produced from their existing holdings, with the percentage determined by the Real Property Management Steering Committee.

We believe that departments participating in a market-based rent program should retain all their rental savings, which would be applied to their programs. Our objective is to encourage County managers to make rational economic use of their real property assets.

On the issue of retention of revenues produced from joint development or leasing, our Task Force's inquiries found that there are different approaches to the issue of providing incentives for departmental participation in management of their real property assets. The "corporate" view is that capital belongs to corporate, and if property is disposed of or produces additional revenue, those proceeds should return to the corporate treasury. The departmental view is that departments are proprietors and should share in the rewards for "giving up" the use of their property.

One example of the corporate view is Orange County, which in 1990 initiated a Real Estate Revenue Development Program. Under this program Orange County will ground lease or engage in joint ventures with private parties for certain of their more valuable properties. Revenues generated by this program are deposited in a special revenue fund to be used for debt service on capital projects and also for the general fund. We are told by Orange County personnel administrating the program that departments are satisfied with this arrangement and are actively participating.

The Little Hoover Commission, however, recommended in their October, 1990 report on Real Property Management: Moving Beyond the Role of Caretaker, that State agencies should retain 20% of revenues produced from co-development activities. We are told that legislation is soon to be introduced to implement this and the other recommendations contained in their report.

We favor a partial retention of any additional revenues as an incentive for Los Angeles County departments. We believe departments should be encouraged to participate. We have not decided on a percentage level for retention, and believe that the Real Property Management Steering Committee should decide what is an appropriate percentage.

F. Estimated Savings and Additional Revenues

By adopting the Commission's recommendations, we believe the County can realize substantial savings in costs for space occupied; and can produce additional revenues from properties with alternative value potential which have not yet been identified or are not being actively pursued.

We should point out that realizing these savings and added revenues will take time to accomplish because of the nature of real property transactions. Further, the commercial real estate market is currently soft in Los Angeles County. These markets tend to be cyclical, however, and we recommend that Los Angeles County position itself to act when the commercial market turns positive.

1) Estimated Savings From More Efficient Utilization of Occupied Space

Although determining a highly accurate estimate on savings is difficult because of unavailability of exact data on space currently being used, we were able to make the following calculation.

From the Internal Services Department's Building Description Report we identified 227 office-type facilities, which have 3,079,134 square feet.

A reasonable yearly rental rate for unimproved office space in suburban Los Angeles County is $18. per square foot.

$18. x 3,079,134 = $55,424,412. {estimated rent budget at market rates

Estimated savings from reductions in space usage from consolidations, reductions in space needed, etc.; and assuming space vacated could be utilized to avoid the expense of acquiring additional space for County use, or could be rented to other tenants:

At 5% savings = $2.7 Million annual savings

At 10% savings = $5.5 Million annual savings

We discussed this estimate with two individuals who are familiar with

County space utilization practices. One believes the assumptions are reasonably accurate. Another stated that the potential savings might be closer to 15%, in his view.

2) <u>Estimated Additional Revenues from Properties with Alternative Value Potential</u>

Calculating potential additional revenues from properties which have not yet been identified, or are not being actively pursued is more difficult because of the lack of an inventory which could help with this identification. In discussing this with a reliable source who is knowledgeable about the County's real estate, it was stated that possibly an additional 20% to 25% of County properties with potential alternative value have not yet been identified for active development.

The current properties assigned to the Asset Development Division (CAO) are projected conservatively to produce an additional $30 million in revenue in current dollars over the next five years, and far higher revenues in the following years. (See <u>Revenue Projections of Asset Development Projects (Minimum Rent)</u> on the following page.) Assuming an additional 20% of properties would produce a proportional amount, those revenues would be about $6 million, some five to seven years in the future. (Allowing for additional time to identify those properties and develop action plans.)

We recognize that this revenue projection is based on an informal estimate of potential opportunities. But we would point out that the potential contributions to the County's funding can make a difference to General Fund departments which have had their programs cut so drastically over the years.

This is why we recommend in this report that attention should be given to this potential, and an inventory developed.

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V. APPENDICES

A. Survey of County Owned Property

The Commission wished to obtain an approximate inventory of County owned or held real property, and place a value on it to show the extent of the County's holdings. Our objectives were to draw some conclusions as to potential cost savings, or revenues, which might be produced. We also wished to sensitize the Board of Supervisors, County managers, and the public as to the hidden but actual costs attributable to County government operations from the acquisition and occupancy of its vast real property holdings.

Because the Commission could not find a central inventory of County land holdings (none apparently exists), we surveyed the fourteen major land-holding departments shown on the following spreadsheets. We believe we obtained reasonably complete information from six departments, partial information from five departments, and no information from three. The total square footage reported was 4.346 billion, or about 100,000 acres.

It should be noted that about 67% of this total is held by four recreational, educational, and cultural departments. (Arboreta & Botanic Gardens, Beaches & Harbors, Music & Performing Arts, Parks & Recreation. Parks & Recreation is the largest landholder in the County.) Some of these departments, however, have current or potential revenue generating uses such as golf courses, driving ranges, restaurants, concessions, shops, etc.

Another 32% of land we identified is held by the Department of Public Works, most of which is in Special Fund properties.

The book value of County owned land, buildings and improvements, and construction in progress as of June, 1990 was $2.4 billion.

We discussed land values with authorities in land development and real estate services. Information they provided shows a wide range of value for undeveloped land in various locations in Los Angeles County. Value depends on geographic location, proximity to freeways, zoning regulations, nature of the surrounding neighborhood, and similar factors. For example, prime downtown land in Los Angeles can average $200 to $400 a square foot, while unimproved land in remote areas of the County is valued at less than $1 a square foot. Some other approximate land values quoted per square foot:

General industrial - $6 to $9
Land near major arterials - $15 to $25
Office building\shopping Center - $25 to $40

V. APPENDIX (Cont'd)

Probably because of the wide range of variables which affect land values in the County, we could find no published data which fixes an average value by geographic area or for the County overall. Nor would any authority we contacted hazard a guess as to an overall average value for Los Angeles County Government's property, without first surveying their vast holdings.

We then attempted our own valuation of County land holdings using the range of land values quoted above. We applied both a low and a high range of values for each suitable alternative type of use of the property, depending upon its location. Our results for the approximately 100,000 acres we identified were:

Low valuation range = $22 Billion

High valuation range = $40 Billion

These figures may still tend to be on the low side, as we were not able to identify all the County's land holdings from our limited survey.

Whatever its actual value, we believe County government and the public should be aware that there is a real but "hidden" cost to owning real estate. At a level of $40 billion dollars, invested at 10% return, this cost would be $4.0 billion dollars annually.

Interestingly enough, the Little Hoover Commission had a similar experience in not being able to obtain a current market value for all of the State of California's real property during the period of over five years it reviewed the State's management of its real property assets. This is noted on page 2 of the Commission's October, 1990 report: Real Property Management in California: Moving Beyond The Role of Caretaker. The Commission did finally obtain an inventory of almost all of the State's real property holdings after obtaining two legislative actions, and over four years' effort by the General Services Agency (pages 37 to 39).

The Space Inventory Data\County Statistics on page 33 was provided by the Real Property Branch of the Internal Services Department, and was useful to our study in determining the extent of the County's ownership and management of its various facilities.

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SPACE INVENTORY DATA/COUNTY STATISTIC~

Approx. Number of County Structures	4,355
Approx. Gross Sq. Ft./Structure (includes park sheds, guard stations, etc.)	52,450,000
Approx. Number of Occupied Facilities Approx.	1,800
Sq. Ft./Occupied Facilities	38,130,000
Approx. Number Commercial Leased Office Bldgs.	533
Approx. Sq. Ft. Leased (private parties)	14,450,000
Approx. Number Leased/Financed Bldgs.*	533
Approx. Sq. Ft. Leased/Financed	14,450,000
Approx. Number Lease-Leamebacks, Build-to Suit	17
Approx. Number Sq. Ft.	400,000
Approx. Humber County-owned Facilities Approx.	3,575
Sq. Ft. Owned	18,366,000
Number County Departments/Commissions	50
Approx. Humber County Employees	85,000

*Includes Joint Powers Agreements; Parking Authority; Certificate of Participation; Multi-Capital Facilities Projects; Joint Refunding; and Nonprofit Corporation

NUMBER BLDGS OCCUPIED BY MORE THAN I DEFT: 503

HALL OF RECORDS:
1.93 ACRES (BLDG SITE)
2.86 MALL OF FLAGS (ONLY)

53 MULTI-BUILDING COMPLEXES
(MORE THAN I BLDG AND AT LEAST 1 BUILDING HAS MORE THAN 1 TENANT)
82 SINGLE-BUILDINGS WITH MULTIPLE TENANTS
(1 BUILDING ONLY BUT MORE THAN 1 USER TENANT)

4,410 FACILITIES IN BDR W/ A SINGLE TENANT
997 FACILITIES W. A SINGLE TENANTAND HOUSING 1 OR MORE EMPLOYEE

8,676,400 LAC POPULATION, EFFECTIVE 1/1/90

SOURCE: Leasing and Space Management, Real Property Branch, Internal Services Department 4/25/91

V. APPENDICES (Cont'd)

B. Individuals Interviewed or Contacted For This Project

Ackerman & Co., Real Estate, Atlanta , Georgia

Robert K. Brown, President, Advisory Services; member of International Commercial Realty Services; Partner in Real Estate Resource Partners Inc.; Chairman of the Board of the American Institute of Corporate Asset Management; member of the American Institute of Corporate Asset Management, member of the American Society of Real Estate Counselors and chairman of its educational committee.

Atlantic Richfield Co., Los Angeles

Benjamin Cubler, former Corporate Real Estate Manager (in September, 1989)

California State University, Long Beach, Public Administration Department

Dr. Mel Powell, Professor

City of Long Beach

John Shirey, Assistant City Manager

City and County of Denver, Asset Management/Land Office

Marilee A. Utter, Director

Coldwell Banker Commercial, Real Estate Group, Inc, Los Angeles

Douglas Haney, MAI, Executive Vice President, Chief Operating Officer

Peter Reich, First Vice President, Industrial Properties

County of Kern, California

Tom Willman, Senior Deputy Director

County of Los Angeles, California

Beaches and Harbors

Ted Reed, Director (in August, 1989)

Chief Administrative Office

Budget and Finance Branch

Local Government Division

Robert Kuziara, Assistant Division Chief Joel Segal, Assistant Division Chief Ernie Miyamoto, Senior Budget Analyst Regine Payne, Management Analyst

Technical Services Division

Donald Deise, Senior Assistant Administrative Officer (in November, 1989)

Asset Development Division

Bill Kreger, Assistant Administrative Officer Warren Bennett, Project Manager Les Detweiler, Project Manager William Lewis, Lease Administrator

Community Development Commission

Carlos Jackson, Director
David Lund, Former Director (in September, 1989)
Judith Kendall, Director, Development Management Division Joan Ling, Assistant Director of Development
Bill Johnson, Manager, Development Management Division

Health Services

Robert Gates, Director (in August, 1989)

Internal Services

Construction and Real Property Service

Jim Abbott, Senior Deputy Director (in June, 1989) **Financial Management and MIS Branch**

Ron Mathis, Deputy Director

Real Property Branch

Phil Pennington, Deputy Director
Richard Andino, Chief, Valuation/Acquisition Division Claus Marx, Chief, Leasing and Space Management Robert Mendosa, Principal, Real Property Agent

Parks and Recreation

Rodney Cooper, Director (in July, 1989)

Productivity Commission

Dr. William Waddell, Commissioner (in June, 1989)

Public Works

Thomas Tidemanson, Director
Richard Hoff, Assistant Deputy Director, Mapping and Property Management Division

Real Estate Management Commission

E. Thornton Ibbetson, Union Development Company, Cerritos, CA.

County of Orange

Chief Administrative Office

Ron Rubino, Director, Management and Budget John Wolin, Senior Administrative Manager Susan Novak, Facilities Planning
Louis Scarpino, Facilities Development

Environmental Management Agency

Clare La Guardia, Project Manager

General Services Agency

Bob Love, Assistant Director
Thomas Galvan, Chief, Property Management Section, Real Estate Division

County of San Diego, Office of Financial Management
Wayne Shipley, Analyst

County of Ventura, Public Works Agency
Raymond Ruiz, Manager, Real Estate Services Division, Central Services Department

Fremont Properties, Torrance, CA

Eric Knirk, Project Manager

Independent Consultants

Hank Ambibie, formerly with Digital Corp., Boston, MA.

Industrial Development Research Council

Joyle Parker, Director of Research

Massachusetts Institute of Technology, Development Center for Real Estate

Marc Louargand, Lecturer

Sam Houston State University

Dr. Lary Cowart, Assistant Professor

State of California

Commission on California State Government Organization and Economy (Little Hoover Commission)

Michael Tritz, Deputy Executive Director

General Services Administration

Paul Savona, former Chief, Office of Real Estate and Design (in July, 1989)

State of Washington, Office of Financial Managerment

Norm Johnson, Manager, Fixed Assets

U.**S. General Accounting Office, Government Business Operations**

L. Nye Stevens, Director

U.S. General Services Administration, Federal Property Resources

Earl Jones, Commissioner

U.S. Department of Navy, Naval Facilities, San Diego

Gary Rains, Management Analyst

University of California at Los Angeles

Dr. Le Roy Graymer, Professor, UCLA Extension

University of Georgia, School of Business, Real Estate Management

Dr. Hugh Nourse, Professor

University of Southern California

Planning Department, Lusk Center

Dr. Richard Peiser, Director

School of Public Administration

Dr. Gary Reid, Assistant Professor

V. APPENDIX

C. Bibliographic

	Recommendation #1	Recommendation #2	Recommendation #3	Recommendation #4	Recommendation #5
Economy & Efficiency Commission Recommendations August, 1991	The Board should issue a policy statement clearly stating its objectives, assigning responsibilities and establishing periodic reviews.	A Steering Committee should be formed to ensure department head level accountability and involvement.	Current County organizations should have additional and clearer responsibilities, and information should be shared and communication improved.	A current and accurate inventory of all relevant property with value should be developed.	Incentives should be developed for departments to retain a percentage of additional revenue generated through their asset development efforts.
Bibliography Documents	Baer & Peiser, 1989 County of Orange, 1990	County of Orange, 1990 State of CA, Little Hoover Commission, 1990	Gale & Case, 1989 Pittman & Parker, 1989	Brown, 1986 Peterson, 1989 Sower, 1988 State of CA, Little Hoover Commission, 1990	Nourse, 1990 State of CA, Little Hoover Commission, 1990

V. APPENDICES (Cont'd)

C. Synopses of Significant Reference Documents

Overview

The Real Property Management and Development Task Force of the Los Angeles County Economy & Efficiency Commission reviewed over 60 different articles, books, and government documents during the course of its study. Prior to the mid 1980's few articles or government documents were found which discussed private or public sector real property as a revenue or profit source. One seminal study conducted by Silverman and Zechauser appeared in a 1983 issue of the Harvard Business Review. This study surveyed over 300 large corporations concerning management real estate holdings. Silverman and Zechauser concluded that corporate real estate was estimated as comprising anywhere between 25% to 40% of the total assets of major American corporations. Although no similar study reviewed governmental real property assets, it is speculated that the percentages are similar in the public sector. As competition increased in the 1980's, profit margins declined and revenue sources became more limited, both the private and public sectors re-evaluated their perspectives on real property assets. Consequently, the literature in the field has grown.

Since 1986 more articles have appeared both in the common press and in specialized journals. On September 29, 1988, an article appeared on the front page of the Wall Street Journal The byline read, "REAL ESTATE gets more government attention." The article pointed out that cities were becoming more aggressive in managing their property portfolios. A fifty city-survey had been completed by Halcyon Ltd., Hartford, Conn. The study indicated that governments were owners of such properties as empty factories, golf courses and air rights over a downtown parking ramp. All of which could be marketed for potential revenue. The Cities of Denver and Long Beach were cited as leaders in the field.

In 1989, the Journal of Real Estate Research devoted its entire Fall issue to corporate real estate issues. Many research studies were presented. These studies stressed the following: the importance of corporate real estate units within the firms; the need for improved communication between corporate real estate and operating divisions, and the value of detailed and well maintained inventories (Gale and Case, 1989; Pittman and Parker, 1989).

In the 1980's the State of California continued to maintain interest in this area. In 1988 the California Department of Commerce surveyed cities throughout California to gain some idea of the extent of their experience in public real estate. They also surveyed the type of development these communities were pursuing. The response rate was high-over 75 percent. The distribution also approximated the general population of the cities in the state. The study revealed that 43% of the respondents had no experience in public real estate; 40% had some experience in public real estate development; and 17% were very involved in public real estate development, ("Who is doing what in Public Real Estate", 1988). The types of projects varied: commercial, 50%; community facilities, 28%; industrial, 13%; and housing, 9%. Both large and small cities were found to have active programs. No other public sector surveys were located which addressed the extent of involvement of governmental entities' involvement with real property asset development. The Department of Commerce also initiated the only publication devoted to public real estate, the Public Real Estate Digest. In addition, in the mid to late 1980's the Department sponsored workshops for local government on public sector asset development through UCLA Extension.

The State of California's Little Hoover Commission has also maintained an interest in real property asset management. It has investigated California State asset management since 1985 and has published numerous hearings and reports on the topic (1986, 1990).

The Urban Land Institute, an association made up of public and private groups focusing on development financed a series of studies in this area in 1989. One such sponsored study, and probably the most comprehensive to date, is a dissertation by Larry Cowart (1990). Cowart reviewed the literature in public sector asset management, conducted case studies on the structure and performance of three municipal asset management programs in the Southeast, and based a series of recommendations on his findings. These included: changes in statutes which restrict governmental leaders from delegating real estate decision making; creation of explicit goals by governmental entities regarding its real estate; and optimally using theoretically supported methods of evaluation, especially alternative financial analysis for determining the best disposition of its surplus property.

As more success stories have been reported, more governmental entities re-thought their real property holdings and began proactive programs. Los Angeles County began a limited program within the Chief Administrative Office in 1983. Orange County began their program in 1989 also in response to this trend. Prior to initiating their program, Orange County assembled a team of real estate and public finance experts to address organizational structure and determine a necessary legal framework (Dowall, 1987). This program has begun to meet its performance goals.

In 1986 and 1988 the Los Angeles County Economy and Efficiency Commission reported on County property management and asset development. In its 1986 study the Commission reported that property management was not fully unified, and responsibility was fragmented and duplication existed between the Chief Administrative Office (CAO) and the Facilities Management Department (FMD). At that time the Commission recommended the consolidation of the two departments. It was believed that this consolidation would assure accountability. This recommendation was approved by the Board of Supervisors.

In December 1988 the Economy and Efficiency again made recommendations to the Board involving asset management. These recommendations encouraged the creation of an "Internal Services Department by merging ... and appointing a single Director to manage the centralized functions". Asset management was included in these functions. The Commission also recommended the merging of the CAO's Asset Development function with Small Craft Harbors (from Beaches and Harbors) and Aviation (from Public Works). The recommendations further instructed the Director of the Internal Services Department to develop a comprehensive asset management program for the County as a whole. The Commission believed that this merger would lead to the optimization of County assets. It envisioned the function to include: long range asset development program planning, project programming, management and control, standards, operations and maintenance, and, technical support and services. This recommendation was rejected by the Board.

As has already been mentioned, interest in public sector asset management is on the increase. A recent issue of Business Week carried an article entitled, "You Can't Fight City Hall, But Maybe You Can Buy It. How State and Local Budgeteers Are Gimmicking Their Way Out Of A Tight Squeeze" (May 6, 1991) supports this trend. Interest in governmental real property management and development is on the increase.

The Task Force's study is timely. Their recommendations are based not only on their own expertise; but are supported by current studies, literature and other governmental program documentation. They incorporate many of the ideas of previous Commission recommendations and suggest alternatives which incorporate many findings from research and governmental practices elsewhere. The following synopses of relevant references were compiled in support of the Task Force's recommendations. They are provided here as a supplement.

Perspectives from General Literature A

Brown, Robert K. "Robert Kevin Brown Speaks on Corporate Real Estate." National Real Estate Investor Reprints (April 1986, April 1987, October 1987, February 1988, August 1988, and October 1988).

Two phases of strategic action planning were identified:

Phase I-function, philosophy and structure

* Understanding of organizational structure and business strategy
* Development of characteristics for the real estate function
* Development of manpower requirements(job description, compensation plan)
* Design action decision system

Phase II-implementation

* Inventory of real estate assets
* Design of action plan-budget and financial forecasting
* Recruit and staff unit
* Design and implementation of a database management system
* Arrangements for ongoing consultation

Gale, Jeffrey and Case, Fred. "A Study of Corporate Real Estate Resource Management." Journal of Real Estate Research 4 (Fall 1989): 23-35.

Intensive interviews were conducted with corporate real estate executives in over 30 large firms in 15 different industries to determine status of real estate management programs, perceived need for changes in the programs, an identification of further research needs. Found that much of the corporate real estate management function is located at low level; but an increasing number of executives are taking advantage of the opportunities to improve corporate real estate performance.

Five corporate real estate functions were identified:

1. Acquisition development- identification of needs, site selection, acquisition development, design and construction;
2. Property development- active property management and record keeping;
3. Financial analysis- project financial analysis, capital budget review, and property tax management and evaluation;
4. Surplus property- identification and disposition, and;
5. Miscellaneous-leasing, development packaging and brokerage.

Eight primary results from the study were found including:

1. The view of corporate real estate resources as a cost factor is changing;
2. Most corporations make little effort to exploit the financial maintenance and performance of their real estate;
3. No relationship was found between nature of the industry and the size and characteristics of particular firms;
4. Real estate units are growing in size;
5. Real estate units are becoming increasingly important;
6. Real estate units have high visibility in their reporting relationships;
7. The units are participants in extremely complex set of shared responsibilities, as activity centers and providers of real estate expertise to other parts of the firm, and;
8. Firms are beginning to actively pursue their real estate resources.

Kateley, Richard and Lachman, M. Leanne. "Asset Management: The Key to Profitable Real Estate Investment." <u>Commercial Investment Real Estate Journal</u> (Fall 1986): 46-53.

Eight basic asset management function were identified:

1. Acquisition
2. Property management
3. Performance monitoring/control
4. Re-tenanting/rehabilitation
5. Peripheral development
6. Refinancing
7. Restructuring ownership
8. Disposition

The study emphasized asset management should be concerned with the relative performance of similar properties with the relationship of an individual's holding to the overall portfolio mix.

Asset management should be a value-adding process.

Asset Managers should be evaluated on an ongoing evaluation of the performance of the real property assets.

The asset management team should draw on experts in the following fields: legal, engineering, financial analysis, accounting, appraisal, environmental analysis, market research, insurance risk management, taxation, brokerage, and on-site management.

Nourse, Hugh O. Managerial Real Estate: Corporate Real Estate Asset Management. Englewood Cliffs, N. J.: Prentice Hall, 1990.

The authors defined corporate real estate management as acquisition, management and re-deployment of real property to implement user objectives

Three approaches to corporate real estate management were identified:

1. Facility management-management of existing facilities
2. Asset management- management which is always actively searching for ways to increase value of the real estate for the firm and shareholders.
3. Entrepreneurial- management which looks for investment opportunities

The authors recommended that an active real estate asset management program should act as a profit center and a separate division or subsidiary. The profit should be tied to the executive in charge's pay as an incentive.

Recommendations were also made concerning the importance of developing and maintaining an information system which includes: existing use; percentage of utilization; description of site and improvements; age; date of occupancy; zoning; historical operating statements; acquisition costs; improvement costs, and; an estimation of its current market value.

Peterson, Rick. "Establishing a Real Estate Asset Management System." MIS Report 21 (April 1989): 107-120.

The author defined "asset management" as the "process of proactive decision making to maximize the value and revenue of potential real estate." It involves property management, market analysis, valuation, preventive maintenance, and marketing.

Three building blocks for a real estate asset management system were outlined:

1. Establishment of the system
2. Project decision and execution
3. Portfolio/project management

Thirteen essential building block components were identified:

1. Definition
2. Organization and staffing
3. Property information system development
4. Strategic plan
5. Implementation
6. Project/parcel feasibility analysis

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7. Go/No Go decision
8. Developer Selection
9. Negotiations
10. Establishment of benchmarks and program goals
11. Service delivery
12. Portfolio management
13. Project management

Seven attributes of an effective staff structure were suggested: expertise; objectivity; analytical skills; creativity; power; continuing life; and an action orientation.

The authors suggested that the most critical step in establishing an asset management system was the development and maintenance of an accurate property information database which includes: physical data; use descriptions; market value descriptions; classifications; and performance data.

The necessity of a strategic plan to assist asset management unity in making cost/benefit analyses was also emphasized.

Pittman, Robert and Parker, Joel. "A Survey of Corporate Real Estate Executives on Factors Influencing Corporate Real Estate Performance." <u>The Journal of Real Estate Research</u> 4 (Fall 1989): 107-120.

The authors surveyed 430 active members of the 1989 Industrial Development Research Councils(IDRC), which is made up of corporate real estate executives from large industrial and service companies.

The survey instrument involved 22 factors and organizational attributes which might be involved in the operation of a corporate real estate department.

A 24% response rate was received representing over 27 different manufacturing and service industries.

The results included:

1. Five most important attributes were related to communication or relationships- whether the department was keep informed of corporate business plans, whether the unit worked closely with operating divisions, whether the department's goals were clearly defined, and whether the department consulted regularly concerning the role of real estate in corporate business planning.

2. The maintenance of a detailed, computerized inventory of all corporate properties and the authority to obtain the information from the operating divisions.

The study also proposed an effectiveness model. This model suggested that centralized real estate authority and senior reporting levels were significant. It also suggested that: the size of the real estate assets; communication with the real estate department regarding corporate planning, and having formal real estate department business plans, and profit center departmental structure were important.

Governmental Perspectives

Baer, William C. and Richard Peiser, Three Case Studies of Local Government Real Estate Asset Management in Southern California. Unpublished report prepared for the ULI-The Urban Land Institute, March 16, 1989.

The study examined real estate asset management in three different size communities in Southern California: Culver City; City of Long Beach; and County of Los Angeles. Did not find that size of the governmental entity was a predictor of sophistication of asset management programs. Each one had different controlling and accounting methods for their diverse holdings.

The authors concluded, "[Los Angeles] County's problem is not one of developing technical expertise so much as it is in deciding upon the form of administrative management of a far-flung real estate empire that virtually defies close control. Coordination problems with local and state jurisdictions loom large here as does the political context in which decisions get made." (p.ii)

The research found that local governments are generally risk adverse.

The researchers specifically identified the County of Los Angeles as suffering from a lack of a strategic plan and from an organizational structure which splits the function between operating departments and the Asset Development Division within the Chief Administrative Office.

Cowart, Lary B. and Hugh O. Nourse, Local Government Real Estate Asset

Management: The Southeast Region Experience A. Unpublished report presented at Urban Land Institute Seminar, "Surplus School and Other Government Property: Achieving Its Potential," January 23-24, 1989.

The authors studied three different cities in the Southeast: Athens, Georgia; Atlanta, Georgia; and Mobile, Alabama.

The study focused on four research questions:

1. Who is involved in the decision-making process in local governments and how they are organized;
2. How do cities develop and maintain an inventory of their real estate assets;
3. What real property assets are owned or controlled by these decision-makers and how these assets are currently used; and
4. What steps are taken to acquire new real estate assets or dispose of unneeded ones.

The findings included the following:

1. Decision makers were from elected governing bodies and administrators of city departments. None had guidelines
2. All three cities had centralized governmental administration.
3. Performance was measured on how much revenue was generated.
4. It is important for the decision makers to have well-organized and up-to-date inventories of all leased and owned property. Original documents are more accurate than secondary records such as assessor information. These inventories should include at least the following:
   1. Parcel identification number
   2. Legal description reference
   3. Property Rights
   4. Location of records
   5. Size, shape of property
   6. Current and permitable use
   7. Market value

5. A team consisting of an attorney with technical title search experience, and technical personnel to identify parcels on maps is important.

Dowall, David E. "Public Land Development in the United States."

Journal of Real Estate Development (Winter 1987): 19-28.

This study is the outcome of a team of real estate and public finance experts formed to investigate alternatives for increasing government revenues in Orange County. Their conclusions focused on the development of public and private County owned property.

The study team cited the following advantages to developers and investors: low cost financing; risk-sharing; zoning concessions; and large parcels.

The study identified the following benefits associated with collaborating on joint-development projects for public entities: financial gains; increased tax base; urban redevelopment; development of public spaces; and development expertise.

The study also identified different ways government organized for joint ventures. Typically a separate entity was identified. They recommended hiring real estate and land development professionals instead of creating separate organizations. These professionals should have skills in the following areas: market feasibility and demand analysis; real estate financial feasibility; appraisals; project management; real estate law; and, property management.

A six step work plan was recommended including:

1. Assessment of real estate resources and opportunities
2. Preparation of market, financial and design analyses
3. Solicitation of developer proposals
4. Selection of site developer
5. Negotiation of joint development agreement
6. Monitoring of the development and use of the site.

The review team strongly recommended that "public agencies formulate strong comprehensive public real estate programs in order to reap the substantial benefits available through joint development projects." (p.5)

Hankla, James. "The Asset Management Program: Creating New Opportunities From Surplus Properties." Real Estate Digest I (Fall 1987): 5-6.

The author emphasized the revenue and social benefits of an asset management program. These included: returning the unused and under-used sites to the property tax rolls; bringing in new sales and income tax revenue from development of the property and employment; creation of construction-related and permanent jobs; and the realization of earnings from the property without loosing ownership and control.

In addition, benefits to private developers were suggested such as, long-term leases with no up-front capital for land acquisition, pre-development tasks (e.g., planning and zoning completed or initiated) already completed.

Kreger, Bill. "Real Property: Asset Development." Pro Forma (September 1990): pp.4, 5, 15.

The author indicated that the goal of Asset Development Division of the Chief Administrative Office of the County of Los Angeles is to "maximize the economic value of...land assets while providing an integrated mosaic of private development and public amenities".

The author also pointed out the advantages of the 1983 State Legislation which allowed County's in the State of California to retain their surplus land and to develop it through long term ground lease arrangements.

Sower, John and Phillips, Patrick. "Private Sector Asset Management Strategies for Cities." Urban Land (September 1988), pp. 6,8.

The authors are with the development consulting firm, Halcyon LTD., which surveyed 50 eastern U.S. cities regarding their real estate assets. They reported two major findings:

Most cities have not clearly defined their real property holdings, much less determined their value and potential source of revenues, and
.
Experience to date suggests that those municipalities willing to prepare a systematic, comprehensive and on going review of their assets stand to gain the most.

Utter, Marilee. "Denver's Office of Asset Management." Public Real Estate Digest 2 (Spring 1988): 8-10+.

The City of Denver's Office of Asset Management was initially created within their existing Finance Department. The Office's responsibility is to analyze the city's real estate needs, financial resources, policies and master plans. Its purposes are to "create an asset management policy, examine city-owned real estate from a portfolio as well as an individual transaction perspective, and make recommendations utilizing consistent criteria." It assumed accountability for the performance of Denver's real property assets. It provides a centralized source for rigorous financial analysis and feasibility review on the City's real estate decisions. The

Office also provides expertise in assisting other departments in maximizing the value of their various properties.

Utter, Marilee. "Public Asset Management." Economic Development **Commentary. 13 (Fall 1989): 4-11.**

The author pointed out the three main reasons for developing an asset inventory system:

1. Increases the understanding of what is owned;
2. Property needs to be viewed as "revenue", not just a "cost", and;
3. Points out to decision-makers the perpetual need for management of this asset.

Denver's Office of Asset Management was created during a recessionary period in 1986. The Office was charged with 6 primary activities:

1. Asset management policy;
2. Inventory of properties;
3. Planning/analysis;
4. Project management;
5. Transaction execution, and;
6. In-house real estate expertise and assistance to other departments.

The Office employs a classification system with four categories:

1. City Use- what properties actually were needed by the City to do its "work";
2. Financial Investment-what properties could yield a financial return, e.g., fee parking lots, airports, car pounds and ground leases;
3. Social Investment- what properties could be used for such things as housing, cultural, and parks, and;
4. Surplus- what properties should be declared surplus and be auctioned off (e.g., parcels which were too small or odd shaped, vacant buildings that could not be maintained)·

The advantages of government becoming an investor were outlined:

1. Allows for long term investment;
2. Leasing adds value to the property;
3. Can add need infrastructure;
4. Can expedite approvals;
5. Can assist with political support;

6. Can provide favorable financing;
7. Provide low expectations for revenue and flexibility, and;
8. Can provide resources for its own building needs

The disadvantages were outlined:

1. Too open decision-making processes;
2. Too slow response time;
3. Regulatory bias against leverage, risk and partnerships;
4. No front-end capital;
5. Poor to terrible development skills
6. Often trades financial return for control, and;
7. Profitable operations often controversial.

Seven specific strategies to maximize financial return and encourage economic development were recommended:

1. Lease instead of selling;
2. RFP instead of auction;
3. Combine tenants;
4. Acquisition for lease-purchase from private sector;
5. Forgo down payment for upside participation;
6. Create assemblages, and;
7. Let immediate uses justify long term investments

Government Documents Perspectives

County of Los Angeles, Economy and Efficiency Commission, "Report on the Role of the CAO and Asset Management in Los Angeles County.,, December 1988.

The Commission encouraged the creation of a single agency, an Internal Services Department, which included a consolidated asset management function. Included in this was the Asset Development Division, Small Craft Harbors, Airports and other major property holdings.
The ISD department was instructed to develop a comprehensive asset management program including the following functions: long range asset development program planning; project programming; management and control; standards; operations and maintenance, and; technical support services.

County of Orange, California. Description,,, December 1990. "Facilities Development Program

Two main goals were outlined:

1. Maximize use of existing County Facilities determination of highest and best use, and;
2. Provide required new County Facilities in comprehensive, timely and cost effective manner.

Two objectives were identified:

1. Establish a systematic, long range facilities planning and implementation process which results in the most effective use of existing County facilities and leads to needed facility development, and;
2. Reduce the financial burden of facilities development on the County General Fund.

Various participants were identified and their responsibilities were outlined, including:

Board of Supervisors- policy approval and planning, receive reports and approve budgets;

Chief Administrative Office (CAO)- provide corporate direction, establish priorities, develop short and long range facility master plans, determine budget/funding recommendations.

General Services Agency/Facilities and Real Property (GSA)- provide technical expertise/support in leasing, acquisition, sale, construction and management of real property.

Environmental Management Agency (EMA)- maintain general plan/growth management plans and manage all properties maintained by EMA administered Special Districts.

Agencies/Departments- identify short and long term program needs, develop individual agency/department facilities master plans.

A Steering Committee was formed with executive representatives from the CAO, GSA, and EMA. The purpose of this steering committee includes:

1. Serving as a focal point for developing and recommending to the Board of Supervisors policy and projects, and developing strategies for project financing and generation of agency/department support.

2. Ensuring a comprehensive process by coordinating staff support, focusing on high-yield projects and encouraging effective use of all resources.

Organization and Economy (Little Hoover Commission). Real ProDerty Management In California: Moving Beyond The Role of Caretaker, October 1990.

The Commission found the four main flaws in the State's property management procedures:

1. The State has an incomplete and inadequate structure for pursuing a proactive management strategy;
2. The State has a fragmented and incomplete approach to planning its long-term needs;
3. The Statewide Property Inventory lacks crucial elements for it to be an effective property management tool, and;
4. Many of the State's current statutes, policies and procedures inhibit proactive management.

The Commission stressed the need for a cohesive, centralized approach to its property decisions. They made 17 recommendations highlighting organizational, statutory and technical concerns. Among these were:

1. Expanding the Public Works Board to make it the centralized administrative structure, for real property management. The Board's responsibilities should expand to include long range planning, appraisal, acquisition, financing, day-to-day management, construction planning and oversight, disposal of excess property and joining development with public or private agencies.
2. Structuring the composition of the Board to include broad-based representation including: five public members appointed by the Governor, Director of the Department of Transportation; Director of Finance; State Treasurer; State Controller; two Senators, and two Assembly members.
3. The Governor and the Legislature were directed to enact legislation requiring each state agency to submit to the Board an intermediate (5-year) and long-range (10-year) capital outlay plans. The Board was directed to submit a multi-year, priority ranked capital outlay plan for all state agencies as part of the annual budget process.
4. Directing the Board to conduct a thorough analysis of all existing legal and policy mandates relating to holding and managing property and making appropriate recommendations for changes.
5. The Governor and the Legislature were requested to enact legislation requiring the Statewide Property Inventory to include an exact description of property, its current and expected use, its expected use, and estimated values for metropolitan properties.
6. Enact legislation allowing the Board to lease out property up to 49 years.
7. Enact legislation to provide incentives for superior

proactive management by departments, individuals and management groups. Also allows agencies to retain 20 percent of any revenues generated by the management of real property.

ARTICLE 7.5

Development of Public Property
[Added Stats 1983 ch 1136 § 2.]

§ 25515. Legislative findings
The Legislature finds that counties are faced with critical revenue shortages and a need for additional revenue sources to provide basic and essential public services.
The Legislature finds that counties own property which, if permitted to be developed by a joint venture agreement between private enterprise and commercial, industrial, and cultural uses, would provide a means to produce additional revenue sources for the benefit of the counties owning such property, and aid the economic well-being of the state generally.
The Legislature further finds that due to reductions in personnel or programs counties own or lease properties which are totally or partially vacant but which could be used by compatible private persons, firms or corporations through lease arrangements or joint venture developments which would generate revenue.
Therefore, the Legislature finds that the provisions for residential, commercial, industrial, and cultural development of public property owned by counties constitutes a valid public purpose.
Added Stats 1983 ch 1136 §2.
Miller & Starr, Ca] Real Estate 2d § 18:19.

§ 25515.1. Authority to enter into lease, development, or contract agreement; Conditions
(a) After complying with Section 65402 and Article 8 (commencing with Section 54220) of Chapter 5 of Pan I of Division 2 of Title 5, in managing its real property acquired prior to January 1, 1984, a county may do any of the following:
(1) Sell, or lease for a term not to exceed 99 years, any of its real property to any person, partnership, corporation, or governmental entity the governing body selects for purposes of cultural, residential, commercial, or industrial use or development, subject to periodic review by the county, upon the terms and conditions determined by the board of supervisors.
(2) Participate as a principal party in the development of cultural, residential, commercial, or industrial uses or development thereof as a public works project.
(3) Contract for the management, marketing, operation, or leasing of its real property for purposes of cultural, residential, commercial, or industrial use or development.
(b) Prior to entering into any agreement pursuant to subdivision (a), the board of supervisors shall determine that the sale, lease, development, or other contract will result in economic benefits to the county. If the proposed agreement is a lease, the board of supervisors shall also make both of the following determinations:
(1) That the public benefit of the proposed lease agreement is expected to be greater than the public benefit which would result from the sale of the property.

(2) That a reasonable expectation exists that future public need justifies retention of the fee ownership of the property.
If the property to be used or developed is adjacent to, or a portion of, real property which is, or will be, used for other governmental activities, the board of supervisors shall also determine that the agreement will not interfere with the use or development of the remaining public property.
(c) In managing any of its property acquired after January 1, 1984~ and after complying with Section 65402-and Article 8 (commencing with Section 54220) of Chapter 5 of Part 1 of Division 2 of Title 5, a county may sell, lease, develop, or otherwise dispose of that property in the manner set forth in this section. <u>This subdivision is not applicable to any county property acquired through eminent domain proceedings</u>.
Added Stats **1983 ch 1136 § 2;** Amended Stats 1984 ch 516 **§ 2; Stats 1985 ch 153 § 1.**
Amendments:
1994 Amendment: (1) Designated the former section to be subd (a) and redesignated former subds **(a)-(c)** of the first paragraph to be subds (a)(1)-(a)(3) and former subds (a) and (b) of the second paragraph to be subds (1) and (2); (2) amended the first paragraph of subd (a) by (a) adding "After complying with Section 65402) of Chapter 5 of Part 1 of Division 2 of Title 5,"; (b) substituting "sell, or lease for a term not to exceed 99 years," for "lease"; (c) deleting "for a term not to exceed 99 years;" after "use or development"; and (d) substituting "or development thereof" for "of development thereon"; (3) added "sale" after "determine that the" in the second paragraph of subd (c); and (4) added subd (b).
1985 Amendment: In addition to making technical changes (1) added "do any of the following:" at the end of the introductory clause of subd (a); (2) added subdivision designation (b); (3) amended subd (b) by (a) adding "pursuant to subdivision (a)," in the first sentence and (b) substituting "make both the following determinations" for "determine" at the end of the introductory clause; (4) redesignated former subd (b) to be subd (c); and (5) amended subd (c) by (a) deleting "by means of an exchange of property with any public agency or by a purchase using the proceeds of the sale of other county surplus property" after "Title 5,"; and (b) "property" for "lands" in the second sentence.
Surplus unimproved land: §§ 54220 et seq.
Conformity of proposed disposition with general plan: § 65402.

§ 25515.2. Adoption of ordinance authorizing agreement; Procedure; Award; Criteria
(a) Any sale, lease, development, or contract agreement entered into pursuant to this article shall be authorized by an ordinance adopted by the board of supervisors. The ordinance shah be subject to referendum in the manner prescribed by law for ordinances of counties.
(b) Prior to adopting an ordinance authorizing a sale, lease, development, or contract agreement the board of supervisors shall hold a public hearing. Notice of the time and place of the hearing shall be published pursuant to Section 6066 in one or more newspapers of general circulation within the county and shall be mailed to any person requesting special notice, to any present tenant of the public property, and to all owners of land adjoining the property.
(c) Any sale, lease, development, or contract agreement shall be awarded after competitive bidding in the manner determined by the board of supervisors, or, if approved by a four-fifths vote of the board of supervisors, after a request for proposals.
(d) Any sale, lease, development, or contract agreement awarded pursuant to competitive bidding shall be determined by the board of supervisors to meet all of the following criteria:

(1) Offers the greatest economic return to the county.
[8 Gov Code]

(2) Meets the residential, commercial, industrial, or cultural development needs of the county.
(e) Notice inviting the bids shall be published in the same manner as set forth in subdivision (g).
(0 For the purpose of receiving proposals, the board of supervisors shall, in a regular open meeting, adopt a resolution declaring its intention to consider the proposals. The resolution shall identify the site, shall specify whether the site is intended to be used for residential, commercial, industrial or cultural development or both, and shall fix a time not less than 60 days thereafter for a public meeting of the board of supervisors to be held at its regular place of meeting, at which meeting the board of supervisors shall receive all plans or proposals submitted.
(g) Notice of adoption of the resolution and the time and place of holding the meeting shall be given 'by publishing the resolution at least once a week for three weeks in a newspaper of general circulation published in the county in which the property is located. In addition, the board of supervisors may euthorize the purchase of advertising space and may advertise the proposed tran~r.~on in such newspapers, magazines, and other periodicals as, in its judgment, will publicize the proposed transaction to those most likely to submit a proposal or bid.
(h) At the time and place fixed in the resolution the board of supervisors shall meet and open the bids or receive the plans and proposal. The plan or proposal as submitted or as revised by the board of supervisors shall be incorporated into the lease, development, or contract agreement. The board of supervisors may reject any and all bids or plans and proposals submitted.
Added Stats 1983 ch 1136 §2; Amended Stats 1984 ch 516 §3.

Amendments:

1984 Amendments: Added "sale" before "lease, development" in subds (b)-(d).
Surplus unimproved land: §§ 54220 et seq.
Conformity of proposed disposition with general plan: § 65402.

§ 25515.3. Applicability of procedure under article; Conflict with other provisions of law

The procedure prescribed by this article may be used by a county notwithstanding any other provision of law and without complying with any other provisions in conflict therewith. This procedure, which shall be an alternative to any other procedure provided by law, shall be applicable to public real property regardless of the manner in which the real property was acquired, the purposes for which the real property was acquired, or the uses, if any, previously made of the property.
Added Stats 1983 ch 1136 §2.

§ 25515.4. Applicability of article to tide and submerged lands granted in trust by Legislature

The provisions of this article shall not apply to tide and submerged lands granted in trust by the Legislature to a city, county, or a city and county.
Added Stats 1983 ch 1136 § 2.

§ 25515.5. Applicability of article to community redevelopment project Nothing in this article shall amend, alter, or modify the duties of a county to comply with the provisions of a community redevelopment plan or an agreement with a community redevelopment agency with respect to property owned by a county within the boundaries of a community redevelopment project.
Added Stats 1983 ch 1136 § 2.

Source: Deering's California Codes. Annotated. Government, Sections § 25515 through § 25515.5.

V. APPENDICES (Cont'd)

D. Article 7.5 (Development of Public Property) and Bibliography

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E. Discussion of Selected Terms: "Land, Economic Opportunity Costs, Appraisals, and Highest and Best Use Analysis"

Land is a physical substance which has economic value. It can be measured either in monetary or exchange terms. It is based on a common set of attributes. The American Institute of Real Estate Appraisers (1987: 1) has identified five different attributes. These include:
.

1. Each parcel of land is unique in its location and composition.
2. Land is physically immobile.
3. Land is durable.
4. The supply of land is finite.
5. Land is useful to people.

The Institute has also identified four basic forces which interact to influence the value of real property (1987: 56)

1. Social trends (population characteristics).
2. Economic circumstances (demand-side and supply-side economic indicators).
3. Governmental controls and regulations (e.g., public services, zoning and building codes, tax policies, and specific real estate laws).
4. Environmental conditions (e.g., climate, topography, soil, natural barriers to development, the availability of transportation systems and the suitability of the location in terms of linkage, and attractiveness of the location).

These forces are dynamic. The interaction of all these forces influences the value of every parcel of real estate on the market.

Traditionally, governmental entities have acquired their land for specific public purposes until which time it was used for another public purpose or declared surplus. Little, if any, consideration was given to the economic opportunity costs of the property.

Economic opportunity costs are those costs associated with potential alternative uses for the land which were never chosen. The recommendations discussed in the report encourage L.A. County officials to examine the opportunity costs of County held property. Appraisals are essential for making economic opportunity cost calculations and estimating the highest and best use of the property.

Appraisals are typically requested when a valuation of the real property is needed. The Institute depicts the valuation process using the attached figure.

There are different types of appraised values. These include:

1. Market value
2. Use value
3. Going-concern value
4. Investment value
5. Assessed value
6. Insurable value.

Some form of a report is provided upon completion of an appraisal. The report can be in either an oral, letter, form, or narrative form. The Institute sets standards for written reports, which cover everything from a basic description of the property to effects of leases and existing or assumed financing (1987: 572-573). Professional review by the Institute also helps to assure that appraisals are conducted properly and are legally defensible.

Highest and best use analysis is one method used by appraisers for considering the property's optimum use in light of market conditions at a specific point in time. It is defined as, "the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and results in the highest value," (American Institute of Real Estate Appraisers, 1987: 42). Highest and best use analysis is one of the best methods for estimating the opportunity costs of a piece of real property. It helps decision-makers to examine whether or not the current, or future, use of the property contributes to the overall total market value of the property.