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March 21, 2016

To: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Sachi A. Hamai
Chief Executive Officer

STRATEGIC ASSET MANAGEMENT PLAN

In conformance with the governance structure adopted by your Board, and the recent reorganization of the Chief Executive Office, the attached Strategic Asset Management Plan outlines the mission of the new Asset Management Branch. Given the age of the County's buildings, and the amount of anticipated repair and renovation work, this plan provides a framework that will inform and guide strategic management and investment in the County's critical assets. This will, in turn, help to ensure the County's long term financial viability and service delivery to the public.

The goals of the plan include:

- Optimize the use of assets to their highest and best use;
- Establish stronger connections between service priorities and asset decisions;
- Create an enterprise-wide understanding of asset needs and priorities;
- Develop long-term funding strategies that address future unfunded needs; and
- Stimulate economic activity and improve residents' quality of life.

The plan provides for greater transparency and collaboration between County departments, and promotes a long-range perspective on asset decisions aligned with County service priorities.

If you have any questions or need additional information, please contact me or David Howard at (213) 893-2477, or dhoward@ceo.lacounty.gov.

SAH:JJ:DPH
BK:rp

Attachment

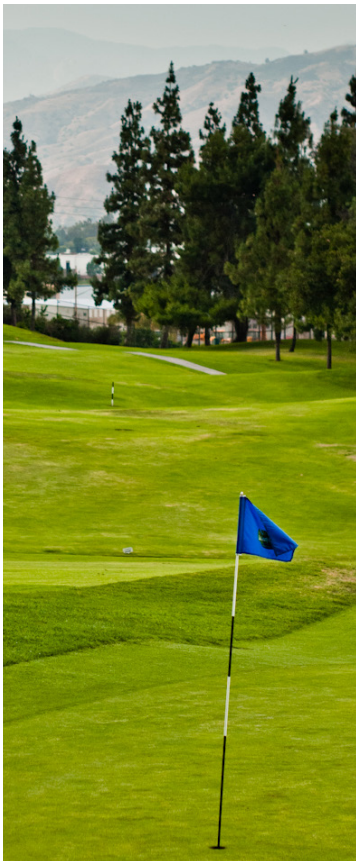
c: Executive Office, Board of Supervisors
County Counsel
All Department Heads

H:Central Services/Asset Management Board Report/Strategic AM Plan- Transmittal Memo

LOS ANGELES COUNTY

Strategic Asset Management Plan

Chief Executive Office



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MARCH 2016

Los Angeles County
Chief Executive Office

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EXECUTIVE SUMMARY

The Chief Executive Office's (CEO) January 2016 Organization Report identified structural and procedural changes within the County of Los Angeles (County) to improve its approach to asset management. This Strategic Asset Management Plan expands on that outline; providing an approach that will facilitate greater transparency and collaboration among County departments. It will promote a long- range, countywide perspective on asset decisions. As a result, assets will be better aligned with the County's highest service priorities.

Through a more comprehensive and open planning process, asset decisions will be less reactive, more efficient, and increasingly focused on innovation and strategic investment opportunities that extend the life of assets and maximize the return on County funds. This approach will provide the Board with improved information when setting policy. The plan also illustrates the need for a continued commitment to invest strategically in the County's assets to support the mission of delivering responsive service to residents, and maintaining the County's financial stability.

Objectives

The following five objectives comprise an asset management strategy that support the new governance and help to focus resources on the highest priorities.

1. **Maintain Accurate Asset Inventory**

   Maintaining accurate data is critical to evaluating facility issues and providing the Los Angeles County Board of Supervisors (Board) with a state of the County's assets. The current condition assessment study, which will be expanded to include hospitals and Sheriff's facilities, will identify and estimate the cost of the backlog of deferred maintenance projects. A needs assessment to identify undersized, underutilized or outdated facilities will also be completed.

2. **Maximize Existing Assets**

   Reducing costs, maximizing return on investment, and extending the useful life of assets are key components of asset maximization. This will provide greater focus on routine and preventive maintenance, eliminate the deferred maintenance backlog, invest in major rehabilitation projects, and address depreciation. This is critical given that a high percentage of the County's assets are at, or beyond, their planned service life.

3. **Guide Strategic Investment**

   A more holistic approach to planning and prioritization will provide the Board with better information and alternatives on which to base decisions. Inter-departmental planning, sustainability, analysis of opportunities for re-use and re-investment, enhanced leasing and property management practices, and emphasis on key County service objectives, such as homelessness and child welfare, will be integral.

4. **Enhance Economic Development**

   Economic development will be a key element of the investment strategy. This includes leveraging existing assets and investment opportunities to benefit the surrounding community, serving as a catalyst for economic activity, promoting job creation, and strengthening the County's financial position.

5. **Develop Strategy to Fund Highest Priority Needs**

   Beginning with improved forecasts of immediate and future needs for capital and maintenance investment, as well as projected revenue, strategies will be prepared to maximize opportunities for revenue generation, and provide recommendations to the Board for funding capital and associated operating costs. A critical long-term financial commitment will be to develop a program for addressing the existing deferred maintenance backlog, roughly estimated to be $1 billion, over a reasonable period.

BACKGROUND

Among the numerous policy priorities facing the County, strengthening the management of its real property assets is integral to the organization's **long term financial viability**, and **the delivery of public services.** This Strategic Asset Management Plan provides recommendations to improve asset lifecycle management, consistent with best practices in managing publicly owned real property assets.

The Los Angeles County Challenge

As the most populous county in the United States, providing a wide range of public services, the County of Los Angeles occupies approximately 60 million square feet of property. The County provides many services countywide or to contract cities, in addition to unincorporated areas. This is a significant factor in the size of the County's asset portfolio, which is more extensive (quantity, value) and more diverse (building types and facilities owned and operated) than most agencies. Because real property represents a significant portion of the County's wealth and potential liabilities, a strategic approach is needed to best utilize both leased and owned space.

A review of the inventory and condition of real property illustrates that the County faces many challenges to strategically manage facility assets. As Southern California continues to grow more densely urban, there are increasing demands for public services with decreasing availability of land.[1] Also, environmental issues - including climate change and limitations on energy and water supply - impact asset planning. In short, given the age, size, and complexity of the County's asset portfolio, a strengthened asset management strategy will provide the Board with sound data and recommendations on which to base decisions.

Asset Management is commonly defined as *"the practice of managing infrastructure capital assets to minimize the **total cost** of owning and operating them, while delivering the service level customers desire"*.[2] Asset Management expands the traditional focus from initial acquisition (leasing, construction or purchase) and maintenance to a more comprehensive view, which can include iterations of refurbishment and reinvestment to extend the useful life, as well as planning for major rehabilitation and/or replacement. It recognizes that through informed planning and decision-making, the total cost (or life-cycle cost) of ownership of assets can be reduced. This is especially important recognizing limitations on available resources, and the mission of stewardship of the public's resources. It is critical that these assets be placed in their highest and best use within the context of the County's mission. Determining the highest and best use is complex and subjective, and must be informed by quality data and well defined parameters that will guide decisions.

[1] Most public sector property asset owners face an aging facility inventory nationwide, due primarily to the rapid growth in building public facilities following World War II and the subsequent passage of time. There is increasing recognition of the financial commitment needed to restore and maintain these assets in a serviceable condition. In addition, since many facility decisions require significant financial investment, or may even be financed long-term debt, establishing more strategic asset management policies and procedures to ensure optimal outcomes has become of increased focus for public agencies in recent years.

[2] Stewart, Doug, V & A Consulting Engineers (2015), Western Council of Construction Consumers *10 Steps to Asset Management*, Presentation at Asset Management Workshop, Oakland

CEO Organization – Asset Management Branch

The new Asset Management Branch (Branch) will provide more effective leadership of the Countywide Asset Management Program, helping the Board meet its goals and objectives by better defining needs and realistic outcomes, and by aligning resources with these goals. The Branch will serve as the central hub - working with the Board, other critical areas of the CEO, and all departments - to implement a vision for managing the County's assets.[3] Due to interdependency between capital and ongoing expenses, the Branch will ensure that recommended funding for capital and maintenance programs reflect the County's operational objectives and are closely aligned with the operating budget. Core responsibilities of the Branch will include:

- Integrated master planning
- Ensure highest and best use of assets
- Economic development
- Guide elevated asset care
- Sustainability, life-cycle management
- Enhance leasing, revenue generation
- Support long-term service delivery
- Transparent collaboration, data sharing

The Branch, through its three divisions - Capital Programs, Real Estate and Leasing, and Master Planning and Sustainability - will improve efficiency through reduced bureaucracy and operational cost savings. The role of Capital Programs is being redefined in alignment with the overall direction of the CEO to focus on strategic issues, and to work with, and through, various departments to achieve tactical objectives.

Best Practices in Asset Management

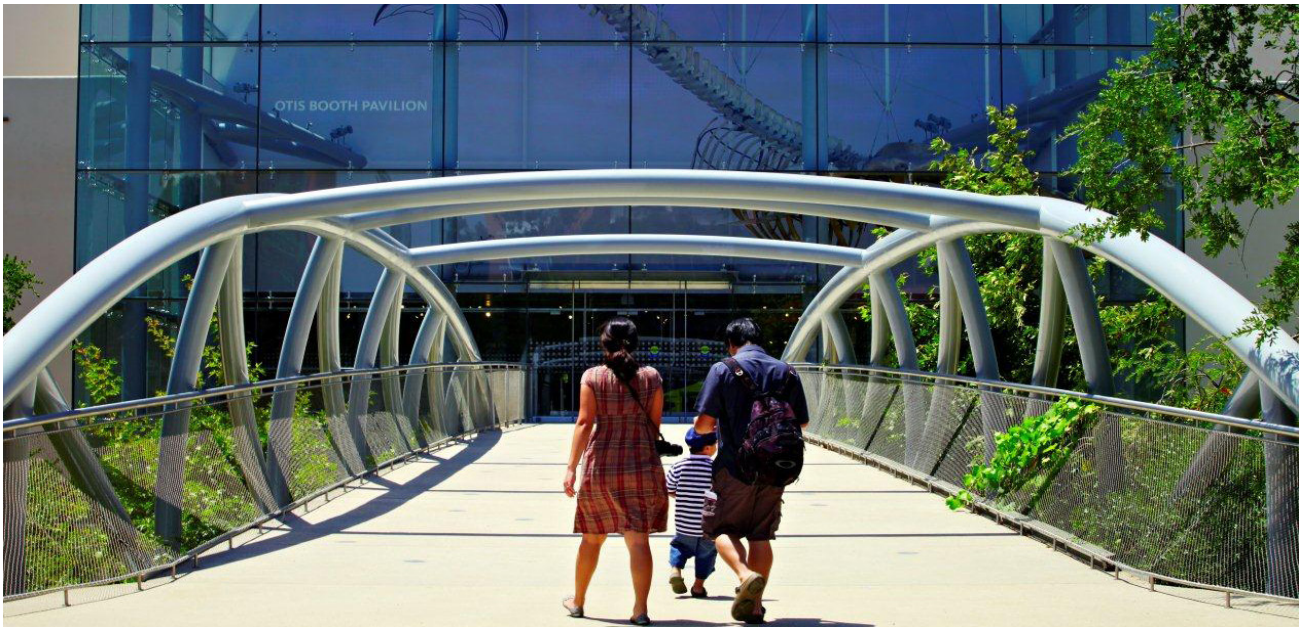
As noted by the Los Angeles County Economic Development Corporation, well-functioning government assets contribute to the region's overall economic and community health.[4]

As part of developing this Strategic Asset Management Plan, the policies and procedures of several government agencies were reviewed and contemporary publications were researched to document current trends and best practices relative to program implementation and oversight, fiscal and budget, information sharing, guiding principles, and governance and organizational structure. The following findings resulted from this review of best practices at the federal, State and local levels:

1. Because of the size and diversity of its mission, the County has a much more extensive portfolio than most agencies.
2. The challenges of deferred maintenance and competition for limited resources are common across most agencies.
3. Most agencies begin asset management efforts by enhancing property data, condition assessments, deferred maintenance, and project planning and delivery.
4. A comprehensive asset management approach involves assessing entire asset portfolio rather than individual properties, which guides more effective decision-making.
5. Multi-year capital and deferred maintenance planning should result in a more manageable process of identifying needs and completing work, contributing to more timely completion and enhanced budgeting and cost control.

[3] Casey, Joseph P. and Mucha, Michael J., Editors (2007), *Capital Project Planning and Evaluation, Expanding the Role of the Finance Officer*, Government Finance Officers Association of the United States and Canada, Illinois

[4] Los Angeles County Economic Development Corporation, *Strategic Plan for Economic Development, Ensuring A Strong, Diverse and Sustainable Economy for L.A. County's Residents and Communities*, 2010—2014, Los Angeles



6. Establishing an advisory project review committee to encourage interdepartmental collaboration elevates accountability and objectivity.
7. Project prioritization, through use of selection criteria, ensures that urgent and necessary projects are completed.

Many of these findings are consistent with initiatives that the County has already begun. By implementing the Strategic Asset Management Plan the County will become a regional leader in this area.

Strategic Asset Management Plan

Within the context of the County's mission, the goals of this Strategic Asset Management Plan are to:

- Optimize the use of assets to their highest and best use
- Establish stronger connections between service priorities and asset decisions
- Create enterprise-wide understanding of asset needs and priorities
- Develop long-term funding strategies that address future unfunded needs
- Stimulate economic activity and improve residents' quality of life

The Strategic Asset Management Plan (Plan) considers the entire life-cycle process of managing assets - from planning, acquisition, maintenance and operation, and preparing for replacement or disposal. Building on better sets of data and implementing strengthened processes will provide a greater ability to carefully weigh alternatives to extend the service of assets and guide operations and maintenance investments, as well as capital investments.

The Plan addresses the County's buildings. While many of the issues identified and principles put forth can be applied to transportation, flood control and other infrastructure, these areas are outside the scope of this report.[5]

[5] In the water and wastewater sector, for example, the U.S. EPA estimated that asset management could reduce life-cycle costs by 20 to 30 percent. United States Environmental Protection Agency (EPA): "Reference Guide for Asset Management Tools, Asset Management Plan, 2014.

Achieving the Five Key Objectives

The strategic asset management approach will be guided by the principles of ***openness*** and ***collaboration***, which are reflected in many of the recommendations outlined in this Plan. Several initial action steps have been undertaken and others have been identified for prospective implementation. These measures will increase participation in asset management processes by all departments and provide a shared understanding of the challenges that the County faces in funding and managing its assets. Increased accountability by departments to efficiently and effectively manage the spaces they occupy is also an anticipated outcome of these actions.

MAINTAIN ACCURATE ASSET INVENTORY

As part of the CEO's ongoing commitment to strengthen the County's asset management activities, in July 2015, the new County Asset Management Property System (CAMPS) was implemented to replace an antiquated asset inventory system. The CAMPS, developed jointly by the CEO and Internal Services Department (ISD), is a robust tool that includes, for example, a centralized asset inventory and lease management functions. In addition to the inventory, the CEO is overseeing facility condition assessments, as well as developing standards for capacity and service delivery analyses to be completed by departments.

Summary of Building Asset Inventory

The CAMPS focuses on buildings and facilities that constitute the real property assets of the County, including leased properties. Based on preliminary data available, the County's portfolio includes approximately 4,000 owned buildings encompassing an estimated 44.9 million square feet.[6] In addition, the County has approximately 800 active leases comprising roughly 15 million square feet of space, predominantly for office space supporting a variety of healthcare and social services functions.

[6] In addition to buildings, the database also includes amenities such as picnic shelters, baseball backstops, swimming pools, playgrounds, storage units, and other miscellaneous assets. Infrastructure assets, including roads, bridges, flood control facilities, and water and sewer infrastructure, are not included.

Approximately 26 percent of County buildings are in the last third of their 50-year planned useful life, and an additional 50 percent are beyond their planned useful life (see Figure 1). This illustrates the urgency to develop plans, based on sound data and prioritization, to inform decisions with how to best address these needs. Alternatives must be considered to cost-effectively extend the life of certain assets and plan for replacement of other assets, based on financial capability and projected service needs.

Figure 2 below summarizes how County-owned assets are used to provide public safety, health care, and social and municipal services to County constituents.

Figure 1

COUNTY OWNED BUILDINGS BY AGE

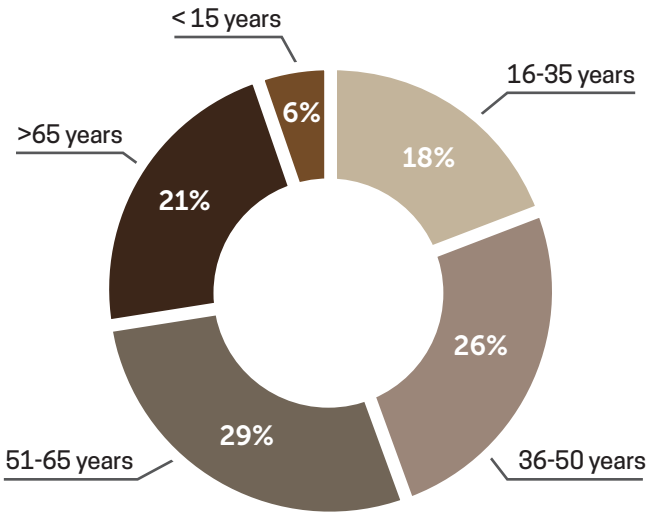
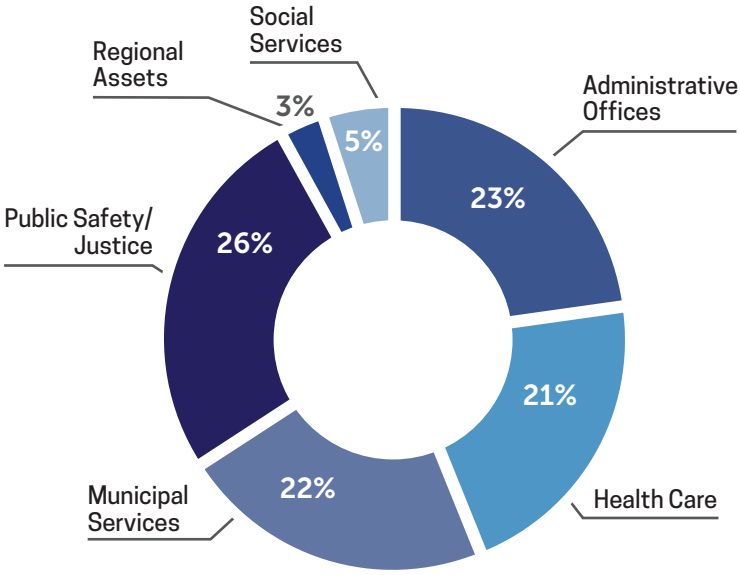


Figure 2

SUMMARY OF BUILDINGS BY USE



HEALTH CARE
Health Services
Mental Health
Public Health

MUNICIPAL SERVICES
Animal Care and Control
Beaches and Harbors
Parks and Recreation
Public Libraries
Public Works

PUBLIC SAFETY/JUSTICE
Alternate Public Defender, District Attorney, Fire, Medical Examiner-Coroner, Probation, Public Defender, Sheriff

REGIONAL ASSETS
Museum of Natural History
Museum of Art
Music Center

SOCIAL SERVICES
Children and Family Services
Child Support Compliance
Community and Senior Services,
Public Social Services

Building Asset Condition Assessment

The size and complexity of the County's mission is reflected in the large number and diversity of real property assets owned and leased. To continue to provide critical services and meet future challenges, an informed planning and decision-making process is needed based on accurate information regarding the condition and capacity of assets.

During the recent economic crisis and other periods of budget shortfalls, facility maintenance is often deferred in order to fund ongoing services. This is a common practice among public agencies,[7] but it is essentially a form of borrowing or incurring debt and results in accelerated deterioration and a backlog of needed facility repairs.

Recognizing these issues, in 2010[8] the Board directed the CEO and ISD to begin a program to address deferred maintenance, including assessment of the condition of the County's assets. In August 2014, a contract was executed with AECOM Technical Services (AECOM) to assess 1,154 facilities totaling 24.1 million square feet, encompassing all County facilities excluding hospitals and Sheriff's facilities.

FIELD ASSESSMENTS

As of December 31, 2015, AECOM has assessed the condition of 505 buildings totaling more than 6 million square feet. This is approximately 25 percent of the total square footage included in this agreement.[9] While only partially complete, the condition assessment is already providing valuable information to assist in planning and implementing various activities, including the recent effort to address deferred maintenance at various animal care facilities.

The current schedule anticipates completing facility assessments by December 2017. Because of the importance of completing a countywide condition assessment, we will return to the Board with recommendations to accelerate completion and expand assessments to include Sheriff's facilities and hospitals. Recommendations will also be made regarding various buildings for which documentation was unavailable when the original scope was established, but have since been identified during field investigations.

DATABASE DEVELOPMENT

A database documenting condition assessments is being compiled by AECOM. Upon completion, ISD will manage periodic reviews to update data on the condition of buildings and track condition over time. Going forward, the database will be used to identify routine and deferred maintenance and estimate needed repairs and building system upgrades. Separately, through use of a connected system, ISD will document repairs and upgrades made to facilities as reference for future planning. The database will also be used, in conjunction with CAMPS and other maintenance management software currently used by departments, to plan routine maintenance activities and track completion. As enhanced and expanded to include all departments, these practices will facilitate increasingly planned and proactive approaches to maintenance. This will ultimately inform decisions regarding whether to repair or replace pieces of equipment. Also, the frequency and cost of emergency repairs or sudden system failures should be reduced, as well as corresponding occurrences of facility disruptions.

COST FORECASTING

Cost modelling components are available to forecast repair and replacement identified by condition assessments. These forecasts are broad estimates without benefit of detailed, site-specific designs

[7] Kaganova, Olga (2006), *Managing Government Property Assets: International Experiences*, Washington, D.C., p. 188

[8] September 28, 2010 Board Motion: Agenda Item 16: Asset Management Program

[9] December 2015 Quarterly Report on AECOM study

and analyses. However, this data will be useful in preparing projections of future funding needs. In addition to estimating the cost of the current deferred maintenance backlog, modelling tools will be used to forecast life expectancy and future replacement cost of building systems, such as elevators, major mechanical equipment, roofs, and others. While cost modelling has commenced on the limited field investigations to date, accurate estimates of maintenance/repair work is difficult due to unforeseen conditions encountered when working in existing buildings. Also, the limited sample of properties for which data is currently available is insufficient to make reliable projections, and initial cost data provided has yet to be validated. Preliminary projections indicate that the current deferred maintenance backlog could be approximately $1 billion.

Additional Factors in Analyzing Building Assets

The ongoing building asset condition assessment is limited only to reviewing the current state of existing assets. While essential to planning for maintenance and upkeep of building assets, condition is only one of several factors that must be considered when making overall decisions about future needs. When evaluating the need for a new or a replacement facility factors to be considered ***in addition to*** the condition of an existing facility must include analysis of:

- Capacity
- Programmatic need
- Location
- Operational efficiency

Planning and assessment tools will be developed by the CEO to guide analysis of these factors.

ACTION ITEMS

✓ **Asset Inventory**

Oversee data refinement and enhance functionality. Make CAMPS available to the County Board of Supervisors and departments for viewing/querying data and simple mapping tools.

✓ **Building Asset Condition Assessment**

Complete current study and expand scope of assessments to include hospitals and Sheriff facilities.

✓ **Needs Assessment**

Identify undersized, underutilized or outdated facilities; develop analytics to guide expanded facility assessment.

MAXIMIZE EXISTING ASSETS

By focusing on better maintenance practices, and investing in sustainability, the useful life of assets can be extended, and limited financial resources can be maximized.

Sustainability

Issues of environmental stewardship are constantly the focus of media attention as society deals with climate change, rising sea levels, a prolonged drought in the Western United States, threats of natural disasters, demands posed by increasing population, etc. Under the Board's leadership, the County has taken numerous assertive steps to meet these challenges, including establishing the following:

- Energy and Environmental Policy (Countywide Environmental Sustainability Policy - 2006)
- Water Recycling Policy (2007)
- County Community Climate Action Plan (2012)
- Sustainability Council (2015)
- Clean Fuel - Sustainable Fleet Policy (2015)
- Numerous ordinances regarding recycling and reducing the environmental impacts of construction, such as the Low Impact Development Standards enacted in 2008, and the adoption of the "Green Building Standards Code" in 2010.

Sustainability will continue to be a key element of managing the County's assets. It reflects the County's leadership role in this area and is a critical component of prudent investment to reduce life-cycle cost of building ownership. ISD, for example, has developed a "Green Buildings Dashboard" that tracks energy and water consumption for a limited number of County buildings (http://green.lacounty.gov/wps/portal/green/county). Over time, tools like this will be used to guide analysis of the operational efficiency of buildings or major pieces of equipment. This in turn will assist in the consideration of options for reinvestment. In response to the Board's March 1, 2016 motion creating the Office of Sustainability, the CEO will provide strategic direction for all of the County's sustainability initiatives working with the Sustainability Council and various departments.

Maintenance

Maintenance of assets is an essential element of maximizing their useful life and minimizing life-cycle costs. Timely and strategic investments can extend the life of a building, and neglecting these activities can seriously shorten the life of an asset. Maintenance has many components. The process through which each type of maintenance is planned, prioritized, budgeted and implemented is described below, as well as an overall strategy on how to focus on proactive maintenance efforts and reduce the need for emergency repairs.

ROUTINE MAINTENANCE

Routine Maintenance refers to repairs and regular maintenance activities of existing facilities. This includes things such as janitorial and grounds maintenance services. It also includes the critical element of preventative maintenance and servicing of equipment and systems, such as changing filters, cleaning and lubrication, inspecting drains, and other activities that extend the system life, and avoid premature failure. Routine Maintenance does not include expansion or change of use. Examples of routine maintenance expenditures would "include carpet replacements, painting, and plumbing repairs."[10] These activities are not capital projects or refurbishments, even if the cost exceeds $100,000. These activities are budgeted in departmental budgets as services and supplies.[11]

[10] Auditor-Controller January 21, 1993 Memo

[11] FY 2015-16 Budget Instructions

Routine maintenance is relatively inexpensive in contrast to the expensive and disruptive repairs that result from failing to complete routine and preventive maintenance. If done properly, routine maintenance will preserve and extend the service life of an asset. Therefore, it is essential that effective routine maintenance standards be followed. ISD is working with a group of departments to update the County's standards for routine maintenance, which will guide performance in this area. It will also be used to determine the cost of existing maintenance activities and helping to optimize these expenditures.

DEFERRED MAINTENANCE

Deferred maintenance addresses failures in building systems, or deterioration in a structure's physical integrity, that has not been mitigated through regular routine maintenance activities. This includes the replacement of building systems and/or structural components, such as roofs that have failed or reached the end of their useful life. This generally does not entail an improvement, enhancement, or expansion of a building footprint or aesthetic quality. A serious deferred maintenance backlog occurred in the County as a result of the recent economic crisis, when building and equipment upkeep was delayed due to a lack of available funding. Minor repair work evolves into more serious conditions when this occurs.

The Deferred Maintenance Program, administered by the CEO in consultation with ISD, systematically addresses these needs, including improved electrical service; heating, ventilation and air conditioning systems; and building envelopes and interior finishes. Established criteria are used to evaluate potential projects and rank them by priority, include the age of a building system; its likelihood to fail; and the consequences of a failure of the building use and services provided to the public. Conservation projects are also undertaken to reduce energy costs and improve sustainability; and life-safety projects create safer environments for County staff and the public.

Since 2010, the Board has allocated, from annual fund balance, approximately $32 million per year for deferred maintenance. Beginning in Fiscal Year 2014-15, the Board committed annual base funding of $5 million, with $5 million added annually until FY 2018-19, when it reaches $25 million per year and is sustained at that level. Available fund balance to augment this appropriation will be assessed during the annual budget process.

EXTRAORDINARY MAINTENANCE

Extraordinary Maintenance refers to emergency repairs or replacements of failed equipment or building systems that are funded out of the "Emergent Needs" allocation in the Extraordinary Maintenance Budget. These are emergency repair or replacement projects where the equipment or building system has failed and needs to be repaired or replaced immediately. A contingency exists within the Extraordinary and Deferred Maintenance cost center from which funding can be allocated as emergencies arise. Approximately $8 million has been allocated annually for this contingency over the past five years. Extraordinary Maintenance expenditures have averaged approximately $6 million per year over the past five years. We will monitor this level with the expectation that it will decrease over time as progress is made in other areas.

MAINTENANCE STRATEGY

A threefold strategy is proposed to enhance implementation of maintenance as part of the overall asset management strategy.

First, the Maintenance Standards Policy (Policy) will be updated and distributed to each County department. This will establish a common expectation for performing routine and preventative maintenance required of each department that manages a County building. Periodic reviews will be conducted by ISD and Auditor-Controller to assure consistent adherence to this policy. With greater focus on routine and preventative maintenance, the frequency of premature building system failures can be reduced. This avoids unnecessary expenses, provides elevated service to users, and preserves the useful life of assets.

Second, the Board and the CEO have made it a priority to assess the current condition of the asset portfolio. This includes estimating the cost of remediating the deferred maintenance backlog and developing a financing plan to address the backlog, as well as the additional deterioration that occurs continuously as buildings age. One objective of the asset management strategy is to eliminate this backlog within a reasonable period of time, and establish a plan to adequately fund the ongoing "wear and tear" depreciation, thereby maintaining assets in a serviceable condition.

Third, although emergency repairs can never be entirely eliminated, by increasing focus on routine and building systems replacement maintenance, the frequency of costly and disruptive Emergency (or Extraordinary) Maintenance can be significantly reduced. As Extraordinary Maintenance is reduced, funding allocated for this purpose can be better utilized for proactive reinvestment in assets, which derives a much higher benefit.

ACTION ITEMS

✓ **Sustainability Measures**

Optimize water and energy use; reduce waste generation, and create healthier environments in conjunction with Internal Services, Public Works, tenant departments, and the Sustainability Council.

✓ **Maintenance Standards**

Update performance requirements for care of County facilities.

✓ **Facility Managers Network**

Convene regular meetings with staff from each department to improve efficiency and effectiveness through collaboration and sharing of solutions.

GUIDE STRATEGIC INVESTMENT

Complementing CEO organizational changes, significant shifts in the roles of departments will be implemented, emphasizing access to data and collaboration in planning, developing, and delivering projects. Figure 4 illustrates the inter-relationship involved in asset management. While administered primarily by the CEO, in consultation with the Department of Public Works (DPW) and ISD as project managers for the Capital Projects and Deferred Maintenance Programs, respectively, the process will involve proactive participation by other departments to ensure optimized outcomes.

Interdepartmental Collaboration

As described in the July 2015 County Governance Report, the CEO's role is to "work with the Board of Supervisors and County departments to reduce the rigidity of existing bureaucracy and to put in place systems, processes and practices that enable fully integrated and innovative responses to problems and opportunities."[12] The process stresses greater inclusion by the numerous stakeholders in planning and establishing recommendations for asset decisions.

Capital and deferred maintenance needs are typically identified by County departments. Specific projects might also be identified centrally through efforts such as facility condition assessments. Issues brought forth by constituents or other stakeholders are also a potential source for identifying specific needs or deficiencies to be evaluated and prioritized. Overall, better data, analytical tools, and thorough and collaborative vetting will help to guide this process.

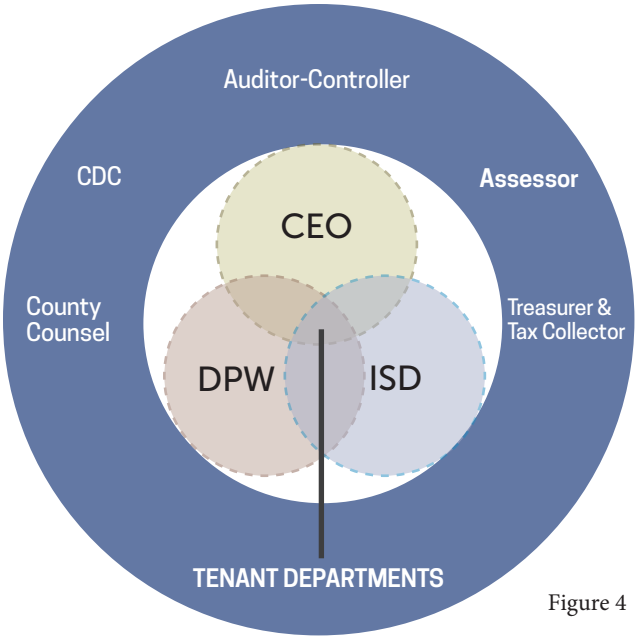


Figure 4

ASSET PLANNING / MASTER PLANNING

Part of the need for strong asset management in large organizations is to integrate the planning process in order to develop strategies with an enterprise-wide perspective.[13] Sound asset decisions require a long-term perspective, and one that maximizes opportunities across the boundaries of individual departments.

One of the priorities of the new Asset Management Branch is to provide greater focus on asset planning. Previously, departments planned their facility needs to reflect their operations with little consideration of integration with other departments. To provide better direction on the use of assets, the focus of this planning effort will be to work interdepartmentally at an enterprise-wide level. This mirrors the way that the CEO is assisting the Board to integrate service delivery with major recent initiatives such as the Office of Child Protection, and the Homeless Initiative.

[12] Los Angeles County Chief Executive Office (2015), County Governance Report, July 2015, Los Angeles, p. 6

[13] Kaganova, Olga (2006), *Managing Government Property Assets: International Experiences*, Washington, D.C.

In addition to the current effort to provide the Board with a complete understanding to the **condition** of the County's existing assets, the CEO will work with County departments to review the **capacity, operational efficiency, and programmatic suitability** of facilities to provide for current and future services. For example, many departments have planning standards enabling them to project the need for new facilities based on increasing population or service area growth. Through use of these standards and the County General Plan, forecasts of the future need for expanded facilities can be developed, which in turn can be factored into long-term capital funding plans. This process will ensure greater consistency in answering fundamental questions[14] as part of planning and needs assessment, such as:

- Is the proposed project in alignment with the County's strategic priorities?
- Are project costs, including operating costs, reasonable, justifiable, and sustainable?
- Are there alternatives to the project which may achieve economies of scale?
- Can the desired outcomes be achieved more efficiently through other means?
- How does the project support the desired service delivery objectives?

The planning process will include an increased focus on evaluating the **highest and best use** of facilities considering the needs of ALL departments, as well as comparing alternatives for re-investment, rehabilitation, and replacement of assets.

INTEGRATED PLANNING AND IMPLEMENTATION

In order to assist the Board in establishing policy and allocating financial and other limited resources, the process by which new capital and deferred maintenance projects are identified, evaluated, and budgeted, will be strengthened to achieve increased integration and reflect a long-term vision of the County's needs and priorities. In addition, with the benefit of the integrated planning process described below, increased opportunities to work openly and objectively with departments will be created, and project requests will be more directly considered relative to department operational objectives and financial plans. Further, requests for deferred maintenance funding can be considered in light of the larger planning for maintenance needs Countywide. Figure 5 illustrates this process, which incorporates the larger restructuring of the County's governance and the CEO's office. The process envisioned, which involves a series of typical steps completed each year, is designed to integrate and focus the efforts of various departments to achieve better outcomes.

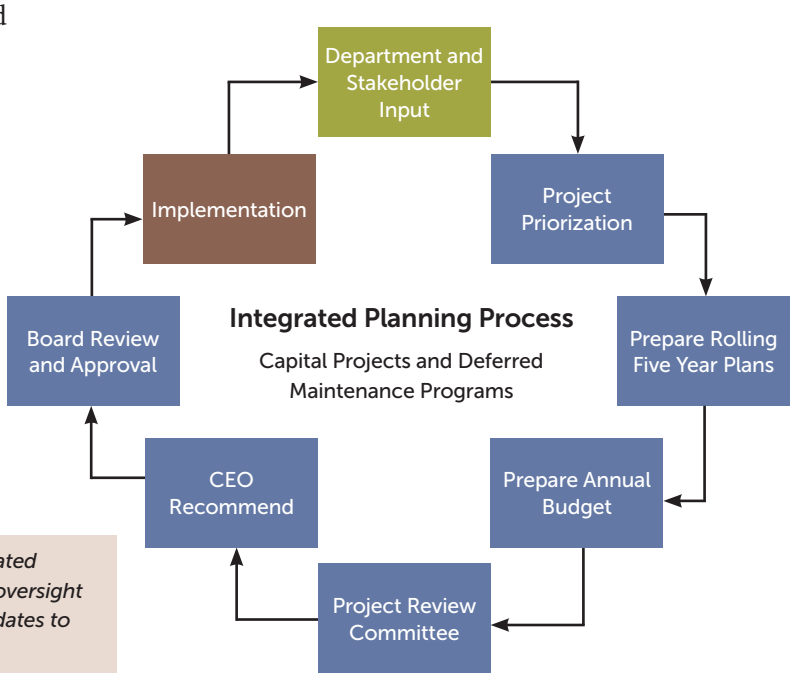


Figure 5

At each stage of integrated planning there is CEO oversight and as appropriate, updates to the Board.

[14] Casey, Joseph P. and Mucha, Michael J., Editors (2007), *Capital Project Planning and Evaluation, Expanding the Role of the Finance Officer*, Government Finance Officers Association of the United States and Canada, Illinois

Prioritization
Prioritizing projects will involve applying objective criteria to potential projects and developing short- and long-term implementation plans. While the CEO will be responsible for evaluating and ranking projects using established criteria, a collaborative process informed by enhanced data collection and analysis and a vigorous exchange of ideas will be emphasized.

Rolling Five-Year Plans
Using new planning and prioritization processes, the CEO will establish five-year plans for capital and deferred maintenance projects, respectively. This will facilitate efforts by ISD and DPW to plan, manage staffing, and expedite procurement processes, and enable the CEO to develop and implement a strategic, long-term vision.

Preparing Annual Budget
The Asset Management Branch will consider needs and priorities to assure that decisions regarding use of facilities reflect the Board's operational priorities. This will typically involve using the highest priority projects identified in the five-year plans, along with other Board priorities, to guide development of the next budget recommendation. The branch will also ensure consistency with and support for Countywide Strategic Initiatives, such as healthcare reform, jail reform, and homelessness. It will also assure that projects are supported by sustainable funding for ongoing operations, and review project and funding alternatives in determining best possible outcomes.

Project Review Committee
Prior to the CEO presenting budget recommendations to the Board, staff recommendations will be reviewed by a committee of department heads. This practice, commonly used by other public agencies, increases transparency, builds support for a Countywide vision, and directs focus to the County's highest priorities.

As integrated planning is implemented through the annual budget preparation, it is expected to provide numerous benefits:

1. Board receives more complete, informed recommendations on which to base decisions.
2. CEO receives more input and assistance from departments in managing County's portfolio.
3. Departments are increasingly effective in caring for assets they occupy, and better able to support the overall strategic mission of the County.

Asset Management Principles

By thinking of assets as a portfolio of resources rather than a collection of individual properties, the myriad of options that confront decision-makers can be addressed strategically rather than in a piece-meal and reactionary manner. This approach is documented as an industry "best practice" and has been implemented by many agencies. The approach is also consistent with the Board's focus on setting County policy, and the CEO's responsibility for providing "thorough and impartial analysis and recommendations to support effective decision-making."[15]

In 1998, as part of ongoing efforts to prudently manage assets, the Board adopted *Real Property Asset Management Principles*, which have guided all aspects of managing County assets. Many of the existing principles pertaining to *Occupancy, Capital, Systems,* and *Portfolio Management* remain sound and applicable. However, certain policy directives that the Board has given since 1998, like the County's Environmental Sustainability Policy (Policy #3.045), adopted in December 2006, are not included. Also, many of the existing principles could be further clarified and/or updated to reflect current standards and practices.

ACTION ITEMS

✓ **Project Prioritization**

Develop criteria for ranking prospective capital projects.

✓ **Citizens Guide to Infrastructure[16]**

Compile succinct guide that explains the complex County asset portfolio and funding related issues; will be available via the County website.

✓ **Biannual Updates**

Distribute consistent and easily accessible information in the form of biannual reports on Capital Projects and Deferred Maintenance Programs.

✓ **Integrated Planning**

Develop policies and procedures, roles and responsibilities.

✓ **Project Review Committee**

Develop standards, such as composition, service duration, and roles and responsibilities; convene committee, engage group in related initiatives.

✓ **Asset Management Principles**

Present updated principles for Board adoption.

[15] Los Angeles County Chief Executive Office (2015), County Governance Report, July 2015, Los Angeles

[16] This document is patterned after a publication prepared by the City of San Diego to educate residents and stakeholders on important issues pertaining to the City's infrastructure assets.

ENHANCE ECONOMIC DEVELOPMENT

Public agencies can play an important role in stimulating economic development, and this can, in part, be affected by investment in public property. In California, there has been increased focus on this topic partly because of the severe impacts of the recent economic downturn and the dissolution of redevelopment agencies. Strategies are needed to increase revenue, promote job creation, stimulate business development, and help revitalize communities.

Examples of governmental economic development activities from across the country were reviewed as part of best practices research. Locally, the City of Los Angeles and Metropolitan Transportation Authority have commissioned studies and taken steps to stimulate economic development. Recognizing this dynamic, the County has undertaken efforts in this area. In 1996, the Board adopted an asset management goal that stated "Where possible, County facilities will be used as a catalyst for the economic revitalization and improvement in the quality of life for the citizens of the County through the operating departments." The Board has worked with the Los Angeles Economic Development Corporation (LAEDC) to prepare Countywide strategic plans for economic development. Prior to redevelopment agencies dissolution, the Los Angeles County Community Development Commission (CDC) led redevelopment in unincorporated areas, and numerous departments supported economic development initiatives.

Direct revenue generation may take many different forms, and must be done within the context of the County's mission. Some opportunities, such as development or renovation projects, are dependent on use of capital assets. Other revenue generating opportunities may be operationally focused, including gift or retail shops; advertising, sponsorships and naming rights; grant applications; and enhanced leasing.

Economic Development Plan

The CEO will work with various departments and agencies, the LAEDC, and CDC to prepare an Economic Development Plan (Plan) for the County. The Plan will incorporate strategies developed in response to several recent Board motions, including the January 5, 2016 motion, which established the Economic Development Policy Committee. The Plan will also provide recommendations relative to specific locations, facilities, or projects, and will identify challenges and obstacles, required resources, potential benefits, and desired outcomes. Also included will be consideration of the possible use of tools included in the State-approved Community Revitalization and Investment Authority (AB 2), Enhanced Infrastructure Financing Districts; and Capital Investment Incentive Program.

Acknowledging the breadth of opportunities, and to maximize effectiveness, the CEO will bring together diverse expertise of departments and further develop

and enhance coordination. Current initiatives targeted for expansion may include:

- Health Services' partnerships with firms conducting medical research and development
- Transit Oriented Developments supported by DPW and Regional Planning
- Revenue leases administered by CEO Real Estate Division, Beaches and Harbors, and others
- Tax increment efforts by the CEO, CDC and Treasurer-Tax Collector
- Workforce development initiatives led by Community & Senior Services, DPW and others

The Plan will present recommendations that will inform complex decisions pertaining to real property investments, including specific opportunities to acquire or dispose of property. Partnering with other agencies, private companies, and educational institutions, will also be explored. The CEO will evaluate and further develop alternatives compiled for this plan, and further research and benchmark economic development initiatives of cities and other counties.

FOCUS AREAS

In addition to the above, a number of focus areas will be considered as part of the Plan:

New Investment
Board direction to create or assign new revenue streams to economic development; pursuing development of specific projects or lease agreements.

Operational Benefits
Incentivize revenue lease performance (concessions, golf courses, etc.); establish performance targets; enhance public-private partnerships.

Business Optimization
Minimize procedural barriers; conduct business outreach; develop a corporate strategy; identify industry-specific opportunities (e.g. biotech, information technology, entertainment) support thriving industries and catalyst businesses.

Affordable Housing
Develop initiatives that facilitate provision of housing for low to moderate income households and in targeted communities.

ACTION ITEMS

✓ **Economic Development Plan**
Complete in accordance with Board direction.

✓ **Optimize County Leases**
Identify strategies to enhance lessor and lessee agreements.

✓ **Property Value/Revenue Enhancement**
Develop strategy to address these opportunities.

DEVELOP STRATEGY TO FUND HIGHEST PRIORITY NEEDS

The constant challenge presented by multiple priorities competing for limited resources is the ultimate driver behind the need for asset management. The strategic asset management approach will provide the Board with better data and carefully considered options on which to base its policy decisions, in order to achieve balance between refurbishment, expansion, and other Board priorities. This will move the County toward having much more knowledge of its funding situation in terms of current and projected needs for maintaining and refurbishing buildings. It will also identify unfunded needs and enhance the CEO's ability to forecast the timing and cost of new and expanded facilities to support priority programs.

Project recommendations will be gathered to develop a program aimed at reducing the backlog of deferred maintenance needs across departments, which is rougly estimated to be $1 billion. Through upcoming budget cycles, more complete data will be compiled to develop a multi-year funding strategy for deferred maintenance needs. In addition to existing strategies of using a combination of grants, short- and long-term financing, and fund balance as revenue sources, additional options will be evaluated and recommendations provided. Potential options for consideration may include:

- Increased use of accumulated capital outlay funds and designations in order to plan for future capital expenses rather than using long-term borrowing.[17]
- Expansion of fees, lease revenues, and/or dedication of revenue streams for maintenance and capital expenses.
- Use of private financing where appropriate (public-private partnerships)

Similar to the current needs assessment by the County Department of Parks and Recreation, the CEO will assemble data regarding asset needs that can be used when competing for grants opportunities.

Recognizing the critical linkage between capital expenditures and ongoing operating costs, a means of assessing the impact on operating costs of capital decisions will be provided. This involves analyzing such things as the cost-benefit of major renovation or refurbishment projects, and the payback period on more efficient systems. It will also consider the resulting increase or decrease in a department's future operating budget based on a capital expenditure.

ACTION ITEMS

✓ **Strengthen Financial Viability**

Develop a forecasting tool that identifies future needs, evaluates potential revenue sources, analyzes cost-benefit of competing and complementary priorities, and enhances alignment of operating budgets with facility priorities and other long-range initiatives.

[17] Kaganova, Olga (2012), *Managing Government Capital Assets in the State of California: What Can Be Learned from Other Governments? Testimony for the Little Hoover Commission*, January 24, 2012

CONCLUSION

The Asset Management Branch was created based on the assumption that needs always outweigh available funding. Therefore, it is essential that the Board be provided with sound data and recommendations on which to base its decisions. The new asset management structure provides greater flexibility without sacrificing accountability in recognizing the size and diversity of the County's asset portfolio. An integrated planning process will facilitate increased collaboration, efficiency, and effectiveness in the development and implementation of capital and maintenance projects.

The Strategic Asset Management Plan is consistent with the goals of the County's governance by increasing "communication and collaboration" and providing "the Board with the tools to concentrate on policy and effective service delivery." Through increased transparency and integrated planning, sound long-term strategies will be implemented to guide the use of assets to their highest purpose in support of strategic County service priorities.

By meeting the objectives and implementing the numerous recommendations described in this Plan, the County will be better positioned to manage facility resources and financial constraints, and meet the challenges of its deferred maintenance backlog and aging infrastructure. The following five objectives are key in the new strategic asset management approach:

- Maintaining an accurate asset inventory
- Maximizing existing assets
- Guiding strategic investment
- Enhancing economic development
- Developing a strategy to fund the highest priority needs

Through this more comprehensive and inclusive planning process, asset decisions will be less reactive and increasingly focused on innovation, strategic investment, and maximizing return on funds, while maintaining the County's overall financial stability. The approach continuously focuses resources on the County's highest priorities.

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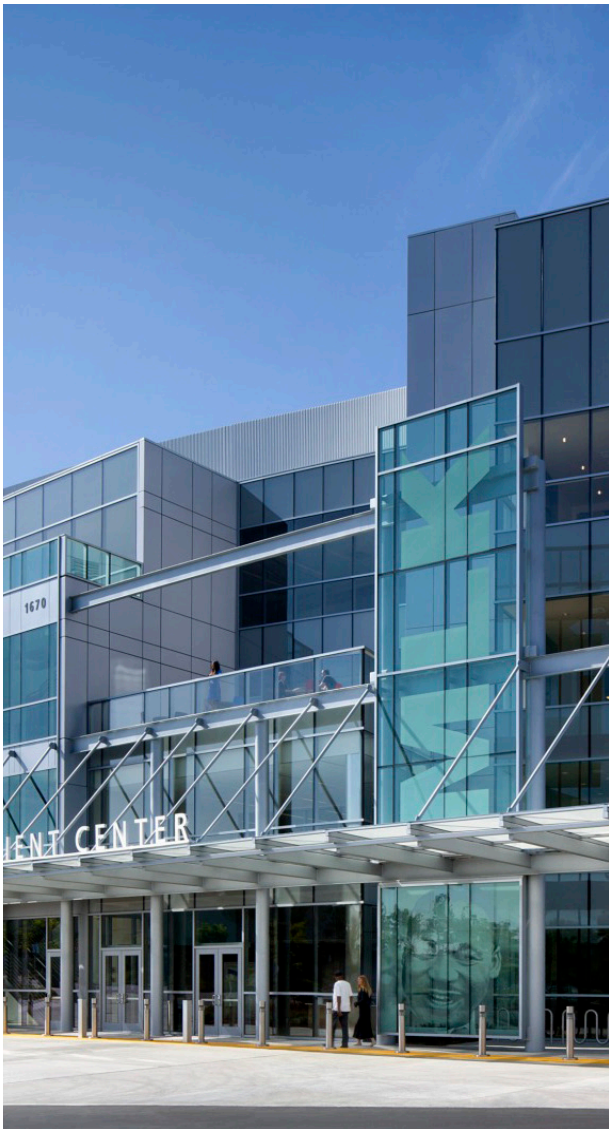
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Los Angeles County
Chief Executive Office

Strategic Asset Management Plan

MARCH 2016