



County of Los Angeles CHIEF EXECUTIVE OFFICE

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SACHI A. HAMAI
Chief Executive Officer

March 6, 2020

To: Supervisor Kathryn Barger, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Janice Hahn

From: Sachi A. Hamai 
Chief Executive Officer

Board of Supervisors

HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
Second District

SHEILA KUEHL
Third District

JANICE HAHN
Fourth District

KATHRYN BARGER
Fifth District

2020 STRATEGIC ASSET MANAGEMENT PLAN

I am pleased to present our 2020 Strategic Asset Management Plan (Plan). This is an update to the 2016 Plan and provides a framework that will inform and guide strategic management and investment in the County's critical real property assets, helping to ensure the County's long-term financial viability and service delivery to the public. The intent of the 2020 Plan is to be aligned with your Board's strategic priorities, and the County's Strategic Plan. Therefore, the Plan will continue to be updated once every four years to reflect changes in the County's Strategic Plan. A list of accomplishments, since the 2016 Plan was published, is also attached.

The goals of the 2020 Plan include:

- Create a Countywide understanding of asset needs and priorities;
- Strengthen connections between service priorities and asset decisions;
- Maximize use of County space and achieve cost savings;
- Prioritize needs to optimize highest and best use of assets; and
- Plan investment and funding strategies.

The 2020 Plan aligns with Board-directed service priorities and the County Strategic Plan to further advance strategies that offer a long-term perspective for decision-making that is focused on reinvestment in County facilities for the most effective provision of public services.

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

SAH:FAD:DPH
KC:mda

Attachments

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

CHIEF EXECUTIVE OFFICE – ASSET MANAGEMENT BRANCH

2016 STRATEGIC ASSET MANAGEMENT PLAN ACCOMPLISHMENTS

Facility Reinvestment Program

- Completed facility condition assessments of County-owned buildings, including hospitals and Sheriff facilities. The initial round of condition assessments was completed between 2014 and 2019. Reassessments will be conducted every five years, and this began in Fall 2019 with the Performing Arts Complex.
- Initiated five-year, \$750 million Facility Reinvestment Program, reflecting a long-term financial commitment to address the backlog of critical deferred maintenance needs.
- Launched Seismic Safety Initiative to assess the risk of damage during seismic events, and strengthen buildings based on their priority. This includes beginning the seismic upgrade of the Kenneth Hahn Hall of Administration.
- Ongoing utilization of detailed building information to identify, estimate costs, and prioritize recommended facility reinvestment (deferred maintenance) projects for funding, and guide investment decision-making.

Efficiency, Transparency, and Collaboration

- Established new Workplace Space Standards for better cost and space management, and completed a pilot program at the Hall of Records.
- Obtained Legislative approval of three bills to authorize increased levels of delegated authority for improved efficiency in contracting.
- Established the Facility Managers Network with regular meetings with all County departments to improve efficiency and collaboration through shared best practices.
- Published the Citizens Guide to Public Buildings as a resource to explain the complex County asset portfolio and funding related issues, which is available on the County website.
- Initiated procurement of a new enterprise-wide real estate management software to replace a legacy system and provide a more robust tool with improved analytics that can be shared across all County Departments.

Master Planning, Reuse, and Monetizing Assets

- Master Planning Unit established to lead strategic asset planning initiatives, including master plans and feasibility studies for County Departments and for underutilized or vacant properties. Recent master plans completed or underway include:
 - For the Civic Center, assessed the need for County headquarter space, guiding strategic decisions related to the use of County downtown assets, and consolidating leases into County-owned buildings;
 - identifying Fire District needs in advance of ballot measure; and
 - addressing current condition and capacity issues for Animal Care Centers.

CHIEF EXECUTIVE OFFICE – ASSET MANAGEMENT BRANCH 2016 STRATEGIC ASSET MANAGEMENT PLAN ACCOMPLISHMENTS

Master Planning, Reuse, and Monetizing Assets *continued*

- Ongoing support of the reuse and disposition initiative identified in the 1999 Asset Management Plan, including:
 - 4th and Hewitt development project, which re-purposes County property in the Arts District to acquire a new facility for the Department of Public Social Services, and mixed-use development;
 - reuse of the San Pedro Courthouse for mixed use development and affordable housing;
 - disposition and/or re-use of the Alhambra, San Pedro, and Torrance clinic buildings; and
 - the use of County property for Safe Sleep, interim and affordable housing.

Capital Construction Program

- Five-Year Capital Plan with project prioritization criteria for capital and facility reinvestment projects planned for release with the FY 2020-21 Recommended Budget.
- Public-Private Partnerships (P3) established as a viable alternative to traditional project delivery methods to achieve community benefits using County property. Approximately \$2.5 billion in P3 projects recently completed or underway include Vermont Corridor County Administration Building, LACMA Building for the Permanent Collection, and 4th and Hewitt Development.

Sustainability

- Collaboration with Internal Services Department on projects to increase renewable energy and energy efficiency in County buildings.
- Ongoing implementation of updated Board policy requiring new County facilities with at least 10,000 square feet to achieve LEED Gold level certification.
- Updated Facility Maintenance Standards to include performance requirements for the care of County facilities.
- Continued focus on transit-oriented development (TOD) projects to further the County's goal of creating a sustainable and revitalized urban environment and fulfill the objectives of reducing reliance on automobile travel and increasing affordable housing, as well as reducing greenhouse gas emissions. County properties being developed in this way include 1) the Grand Hotel in SD1, 2) the Vermont Corridor County Administration Building in SD2, and 3) the Rancho Los Amigos South Campus ISD/Probation Headquarters in SD4, as well as various mixed-use residential TOD projects throughout the County.



County of Los Angeles



Strategic Asset Management Plan

County of Los Angeles Chief Executive Office
Asset Management Branch





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Executive Summary



Sachi A. Hamai
Chief Executive Officer

I am pleased to present the County of Los Angeles' 2020 Strategic Asset Management Plan. The Strategic Asset Management Plan supports Board-directed priorities and the County's Strategic Plan for providing quality services to the residents of Los Angeles County. This 2020 Plan expands upon the accomplishments of the 2016 Plan, and outlines key goals and objectives to advance investment in County of Los Angeles assets based on comprehensive data analyses and strategic decision-making.

Strategic management of Los Angeles County's real estate assets is critical to effectively providing services across a large and diverse County.

The County of Los Angeles has an expansive mission, providing a wide range of health care, justice, municipal and social services to a population of over 10 million residents covering an area of 4,000 square miles. To serve this mission, the County operates an extensive asset portfolio of approximately 4,400 owned buildings encompassing 65 million square feet. Strategic management of these building assets, informed by accurate data, is critical in order to provide services across a large and diverse County.

The 2016 Strategic Asset Management Plan presented an urgent need to address the increasing number of aging buildings requiring reinvestment, and to make informed decisions regarding the future use of assets. Since then, the Chief Executive Office's Asset Management Branch (CEO AMB) has focused on implementing various strategies to 1) assess the current state of County assets; 2) implement a reinvestment program to improve the condition of buildings; 3) advance master planning for County departments and specific sites; and 4) develop disposition and reuse plans for vacant or underutilized property.

The County remains committed to an integrated process that strives to make practical decisions for the implementation of capital and facility reinvestment programs, while meeting required service levels Countywide.

The Chief Executive Office (CEO) has established an asset management structure comprised of:

- An asset inventory that is up-to-date and provides a complete understanding of asset needs and priorities;
- Appropriate maintenance of assets to extend their useful life and maximize financial resources;
- Optimal use of County space;
- Data analyses utilized to make objective decisions on the best use of assets, including further investment and disposition; and
- Use of forecasting tools to plan for future investment and funding needs.

The strategies developed for this Strategic Asset Management Plan follow the established asset management structure, and expand on performing broad assessments of assets and managing the lifecycle of these across the entire County portfolio. This Plan also advances strategies that offer a long-term perspective for methodical planning and investment decisions, rather than reactive decision-making. These strategies can extend the life of assets and produce cost savings over time. Savings achieved from better management of assets and space can be used for ongoing reinvestment in existing County facilities and public services.

Introduction

The County of Los Angeles 2016-2021 Strategic Plan (County Strategic Plan) presents the Board's vision and service priorities as goals and strategies that direct the delivery of services. The County Strategic Plan also provides direction to the CEO to lead inter-departmental and public-private partnerships to implement budget and capital plans which operationalize the Board's vision and priorities.

Board-directed Priorities

- **Justice Reform**
- **Child Protection**
- **Health Integration**
- **Homelessness**
- **Environmental Health Oversight and Monitoring**
- **Immigration**
- **Sustainability**

The Strategic Asset Management Plan aligns with the County Strategic Plan including Strategy II.2 - Support Wellness of Our Communities; Strategy III.3 - Pursue Operational Effectiveness, Fiscal Responsibility, and Accountability; and Objective III.3.2 - Manage and Maximize County

Assets. While the Board-directed priorities and County Strategic Plan guide budget and operations management decisions, they also direct capital, maintenance, and real estate decisions that meet the facility and space requirements for the implementation of service priorities.

Scope of County of Los Angeles Asset Portfolio

The County has an extensive asset portfolio including approximately 4,400 owned facilities encompassing an estimated 65 million square feet, and an additional 7 million square feet of leased space. This does not include infrastructure assets such as roads, bridges, airports, flood control and other facilities.

There are three major challenges in the management of County assets:

1. Limited space and resources to meet demands for programs, services, staffing, and other obligations.
2. Aging buildings requiring significant amounts of investment for repairs and refurbishments; and
3. A growing and changing workforce, and shifting priorities and service needs requiring adaption of our facilities to be responsive.



Asset Management

Asset Management provides a framework for investment planning that delivers cost-effective solutions for delivering acceptable levels of service over the entire asset life-cycle.¹ As a result, sound maintenance and reinvestment strategies provide for improved business decisions and cost savings. In large organizations, such as the County, it is essential to strategically plan and carefully consider options to allocate limited resources while striving to meet service priorities.

It is essential to strategically plan and carefully consider options to allocate limited resources while striving to meet service priorities.

Data Analyses and Strategic Decision-Making

To effectively manage County assets, the CEO AMB has implemented a methodology for prioritizing investments, extending the useful life of existing assets, and optimizing use of County space. This methodology includes analyses of the County portfolio to develop recommendations for strategic investment. These analyses examine the County portfolio for four prime failure modes, (e.g. how an asset can fail: condition, capacity, compliance, and efficiency) while assessing both the risk of systems failing and the consequences that these failures would have upon the provision of County services.

Given that condition and other failure modes are not static, and the depreciation of assets is an ongoing process, there is a need for an active and holistic approach to managing the County's asset portfolio. This guides planning for anticipated future costs, capital and maintenance budget priorities, and funding strategies for these investments.



¹New England Water Environment Association (2018). Definitions and Benefits of Asset Management. Retrieved from <https://www.newea.org/about-us/committees/asset-management-committee/am-resource-center/definitions-and-benefits-of-asset-management>

This Strategic Asset Management Plan provides an asset management framework that considers the entire County asset portfolio and facilitates better investment decisions that extend the useful life of assets and meet required service levels. To accomplish this, the objectives and strategies of this Plan emphasize:

- Data analyses of asset inventory;
- Maintenance management;
- Property and space management; and
- Strategic decision making and investment in highest priority needs.

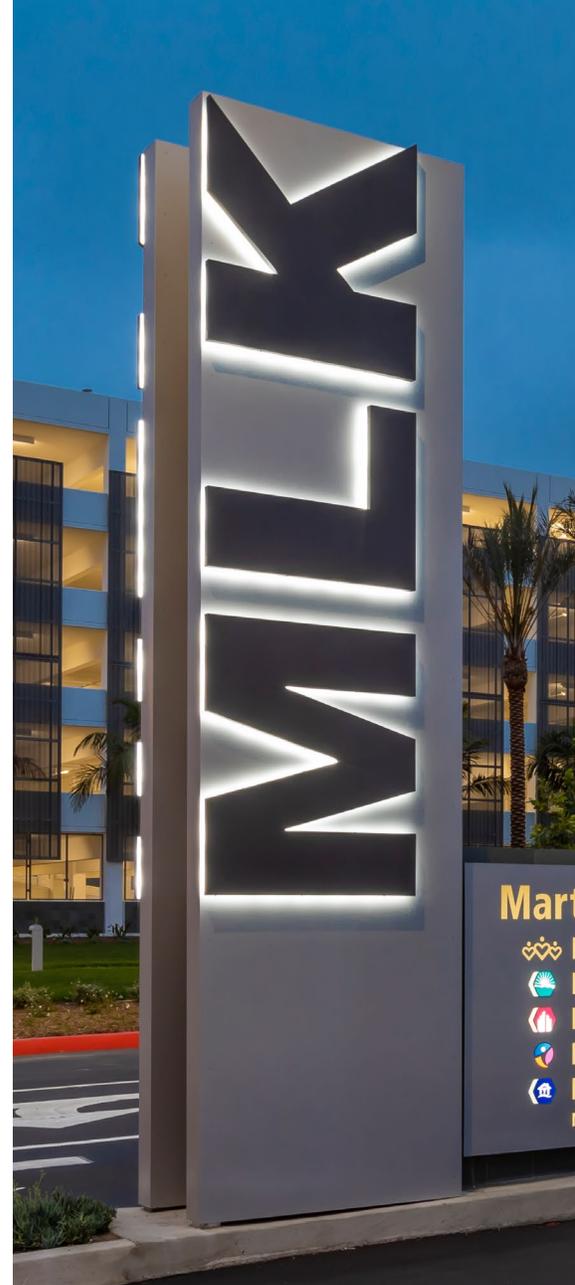
Strategic Asset Management Plan Goals and Objectives

The goals of this Plan are:

- Create Countywide understanding of asset needs and priorities
- Strengthen connection between service priorities and asset decisions
- Maximize use of County space and achieve cost savings
- Prioritize needs to optimize highest and best use of assets
- Plan investment and funding strategies

The key objectives of this Plan are:

- Objective #1 - Maintain Asset Inventory**
- Objective #2 - Extend the Useful Life of Owned Assets**
- Objective #3 - Optimize Real Estate Portfolio**
- Objective #4 - Guide Strategic Decision-Making**
- Objective #5 - Fund Highest Priority Needs**



Objective #1

Maintain Asset Inventory

Maintaining an accurate asset inventory is essential to making sound decisions with a Countywide perspective.

Action Items

1. Ensure data consistently maintained and up-to-date.
2. Expand facility condition database functionality.
3. Procure new software system for managing County assets.

over 50 years old may be considered historic, potentially making them more difficult to replace, if no longer needed. A summary of County-owned space based on gross square feet (GSF) by condition and age is presented below.

Forty percent of all County assets are in poor condition, and 48% are over 50 years old. Condition assessments completed for all County-owned facilities identify the most critical facility reinvestment needs Countywide.

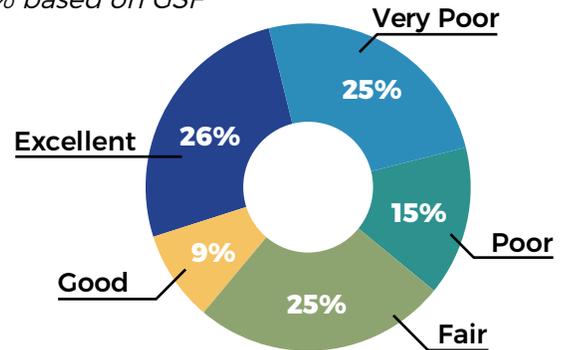
Data-driven decisions require reliable and accessible data. Collecting and maintaining accurate data is critical to evaluating facility issues and providing decision-makers with a fact-based assessment of the County's assets. Knowing what assets are owned and the state of those assets is a foundational component of a successful asset management program.²

Ensure Data Consistently Maintained and Up-to-date

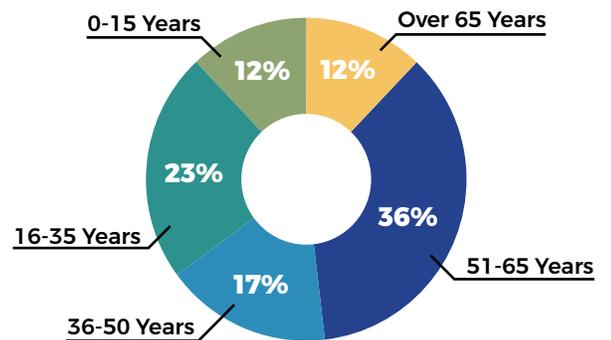
Condition assessments have been completed for all of the County's owned properties, and the resulting detailed and extensive building data, with corresponding repair and replacement needs, is stored in the Strategic Asset Management System (SAMS) database. This information provides an essential basis when considering how to allocate limited resources to address the most critical facility reinvestment needs Countywide.

Based on these completed assessments, 40% of County-owned space is in very poor or poor condition, and 48% is over 50 years old. Buildings beyond 50 years typically require reinvestment to address whole building systems (HVAC, roofing, etc.) and equipment components approaching or past their planned service life. Also, buildings

Condition of County-owned Portfolio
% based on GSF



Age of County-owned Portfolio
% based on GSF



²David A. Clark, Darryl Street, and Shayne Kavanagh. "Follow the Leader – How to Develop Your Own Best in Class Asset Management Program." Government Finance Review, August 2018: 12-15.

A building's physical condition changes over time, and so ongoing monitoring is critical to capture the current state of its building systems and equipment. In late 2019 the CEO AMB began reassessing assets on a rolling, five-year schedule to ensure a continued documentation of the condition, and scope, of its owned portfolio as existing assets age and facilities are added or removed from the inventory.

Expand Facility Condition Database

The County continues to enhance the database that documents the location, size, features, and conditions of its real property assets. The facility condition database will be expanded to better inform facility reinvestment decisions by incorporating additional data sets and analytics based on physical condition, compliance, and efficiency, including:

- Americans with Disabilities Act (ADA) compliance;
- Efficient use of space, and workforce mobility;
- Seismic safety evaluations of County-owned buildings; and
- Energy efficiency and sustainability.

Procure New Software for Managing County Assets

In order to provide the range of robust analyses to improve the strategic planning and management of space allocation, detailed in the Optimize Real Estate Portfolio section of this Plan, a robust, enterprise-wide, real estate management tool is needed. The existing legacy tool has limited functionality. A new software system is planned which will address all aspects of asset management for the County's full portfolio.

Fact-based decisions require reliable and accessible data and robust analytical tools to guide decision-making.

Comprehensive Asset Management Requires Multiple Data Sources & Analyses

Understanding the condition of a building in and of itself is insufficient for good decision-making. Supporting data-driven decisions requires reliable and accessible data that considers the four primary ways a building can fail – physical condition, capacity, compliance, and efficiency. Decisions must be guided by both the **likelihood of failure** and the **consequence of that failure**, and how they affect the County's ability to provide services to the public- analyzing multiple data sets collected through facility condition assessments, master plans, and assorted studies and audits.

Condition

Physical failure of building systems and components can be caused by multiple factors including age, physical deterioration, weather, fire, and seismic activity.

Capacity

The measure of a building's ability to meet current and estimated future service needs.

Compliance

Meeting statutory regulations and addressing functional or physical inadequacies with an existing facility, including air quality, seismic safety, and access to individuals with disabilities.

Efficiency

Operational efficiency is a measure of a building's value in relation to the cost to operate and maintain that building.



Objective #2

Extend the Useful Life of Owned Assets

Through strategic investment in the portfolio, and improving maintenance, asset life can be extended, and financial resources maximized.

Action Items

1. Continue to fund and implement the Facility Reinvestment Program.
2. Manage routine maintenance to extend the useful life of assets.
3. Develop metrics and track multi-year trends for maintenance cost and quality.

Continue to Fund and Implement the Facility Reinvestment Program

The Facility Reinvestment Program is a long-term plan for proactively reinvesting in existing County assets. In 2018, the initial \$750 million phase of this Program began replacing existing building systems and equipment that exceed or are approaching the end of their useful life. This reduces overall facility management and maintenance costs, prevents further deterioration of facilities, and avoids premature or catastrophic failure. The intent of the Facility Reinvestment Program is to improve the quality and cost-effectiveness of the County's portfolio by mitigating deterioration, improving safety, and increasing energy efficiency.

This ongoing Facility Reinvestment Program will begin to address the backlog of the most critical facility reinvestment needs, currently estimated at \$2.7 billion based on completed condition assessments.³ Buildings depreciate continuously, and so the investment level must match or exceed depreciation or assets will fail. The County will need to commit additional resources to address the backlog over time. The

The Facility Reinvestment Program improves the quality and cost-effectiveness of the County's portfolio by mitigating deterioration, improving safety, and increasing energy efficiency.

County will also need to assertively perform routine and preventative maintenance to ensure the backlog does not grow.

The County continues to focus on sustainability and life-cycle management to achieve peak operational efficiency of its buildings and equipment. In August 2019, the Board approved the County's inaugural Sustainability Plan, setting forth a vision for the sustainability of the Los Angeles region, and adopting a focus on investment in renewable energy and improving the energy efficiency of existing buildings.

Asset condition must be maintained through routine and preventative maintenance. The failure to maintain the condition of assets has been shown to be a poor financial practice. Essentially, it is a form of taking on debt – as the value of the asset declines, future liabilities accumulate.

By advancing the Facility Reinvestment Program, the County can:

- Extend the useful life of County-owned facilities beyond 50 years;
- Avoid costly repairs and service disruptions due to failed building systems;
- Increase efficiency and reduce cost of building operations;
- Increase predictability in maintenance budgetary requirements; and
- Provide a safe and high-quality environment for the public and County employees.

³ Estimated value as of May 2019. This excludes additional condition assessments completed for Department of Health Services and Sheriff facilities.

Manage Routine Maintenance to Extend the Useful Life of Assets

Scheduling routine maintenance, and prioritizing facility reinvestment repair and replacement projects, will help ensure that extraordinary maintenance budgets are available to be used for true emergencies. Facility Maintenance Standards updated in 2016 are providing County departments with guidelines for performing routine and preventative maintenance at County buildings. These standards will support development of baseline data for annual maintenance costs for various building types, and enable that data to be incorporated in County department operating budgets.

Develop Metrics and Track Trends for Maintenance Cost and Quality

The CEO AMB will develop performance metrics from established maintenance standards and industry best practices to track multi-year trends for the cost and quality of maintenance. Collecting information on the cost per square foot of maintenance for the most common building types in the County's owned portfolio will provide a basis for identifying and making needed adjustments. By defining what is important to measure, how those measurements will be collected, and what benchmarks will be used, it is possible to track and improve performance and reduce costs over time to ensure maintenance costs are sustainable and the resulting performance (quality) meets or exceeds expectations.



Objective #3

Optimize Real Estate Portfolio

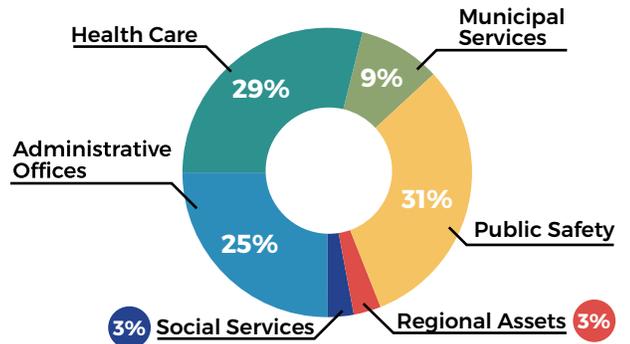
Active management of a real estate portfolio can reduce facility occupancy costs, and achieve better financial and utilization outcomes.

- Action Items**
1. Maximize the use of owned and leased space.
 2. Enhance revenue generating activities.
 3. Reduce costs and increase private sector competition for leasing.

Sixty percent of the County's owned portfolio is used for public safety and health care services, and over half of the County's leased portfolio is used for providing social services.

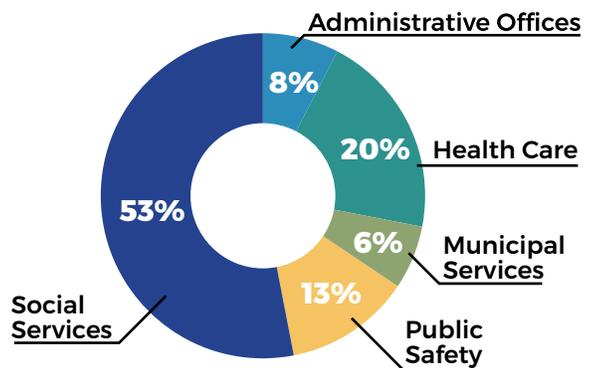
County-owned Buildings By Use

% based on GSF



Leased Space By Use

% based on GSF



The County has a large and complex real estate portfolio. Government agencies hold much of their wealth in real estate, and agencies often fail to recognize the market value of their real estate and lack incentives to maximize value.⁴ Through effective management of both owned and leased assets, it is possible to reduce costs, increase revenue, and focus the use of assets to their highest purpose.

The County owns approximately 4,400 buildings comprising approximately 65 million square feet of space. In addition, the County leases an additional 7 million square feet at an annual cost of \$200 million. This annual cost could grow to over \$243 million in five years assuming a 5% annual inflation factor. As part of this Strategic Asset Management Plan, the CEO AMB is establishing a series of goals to increase revenue and reduce costs through proactive management of our portfolio.

⁴Detter, D. & Folster, S. (2017). Public Wealth of Cities. Washington, DC: The Brookings Institution.



Maximize the Use of County-Owned and Leased Space

The County owns and occupies many types of space, a significant portion is office space. Given the cost of real estate in Los Angeles—whether leased or owned—optimizing the use of office space has the potential to significantly reduce ongoing operating costs. The CEO AMB is working with County departments to better manage space and resulting costs. **The four-year goal is to reduce the amount of leased square footage by 10%.** To achieve this reduction, many initiatives will be pursued, such as:

- Eliminating unused space;
- Implementing new space standards;
- Shifting to a less paper-based work environment;
- Expanding the use of hoteling; and
- Reducing our leases in the most-costly real estate submarkets.

Enhancing Revenue Generating Activities

The County's real estate assets present significant potential for generating new revenues. The County presently has numerous leases to various entities, some of these entities have gratis leases as they provide a social benefit to a community while other leases generate substantial annual revenue. The County is also the lessee on hundreds of leases where it helps facilitate broker agreements. **The four-year goal is to increase lease revenue by 10%.** Opportunities to increase lease revenue and optimize the use of office space include:

- Ensuring tenant lease rates are moved to market rate as leases expire and new contracts are developed;
- Ensuring lessees are adhering to the annual CPI adjustment provisions within their lease;
- Ensuring recipients of gratis leases are paying their appropriate share of expenses, such as utilities, parking, and security;
- Ensuring landlords pay commissions to the County for deals brokered by County agents; and
- Evaluating new revenue opportunities such as advertising, cellular towers and/or solar panels on County owned properties.

Reduce Costs and Increase Private Sector Competition for Leasing

The four-year goal is no net increase in total annual leasing costs. To meet this goal, cost control initiatives being implemented include:

- Moving non-subsided County departments from leased space to owned space where possible;
- Creating a self-financing mechanism to significantly reduce the interest expense linked to tenant improvement costs in leased space;
- Increasing the use of wireless technology as it offers the potential to substantially reduce the sunk cost of installing communications infrastructure in leased spaces; and
- Creating opportunities for more landlords to compete for County leases.



Objective #4

Guide Strategic Decision-Making

Sound asset decisions require objective information and analysis with a long-term perspective focusing on the highest and best use of assets.

Action Items

1. Provide decision-makers with data-informed analysis to frame options.
2. Continue to define levels of service as a basis for near and long-term investment decisions.
3. Refine prioritization methodologies for projects.

Asset management decisions have a long-term financial impact on service delivery. Consequently, asset management recommendations need to be formed collaboratively between the CEO AMB and County departments. A decision to invest in repairs and other improvements is a commitment to continue to use a facility and sustain the operating costs of using and maintaining the building. Most public buildings are used for many decades, so building a new facility creates both an asset and a long-term liability. A decision to dispose of a facility has long-term impacts as well.

Provide Decision-makers with Data-informed Analysis to Frame Options

Public sector agencies make public service, operational, and asset management decisions in the context of choosing between multiple priorities, and competing for limited resources. Because asset decisions have long-term financial implications, decision-makers are best served by exploring data-informed options with opportunities, challenges, trade-offs, and costs clearly articulated. A long-range perspective anticipates and plans for future needs, but also provides a framework for making sound short- and medium-term asset management decisions.

The CEO AMB will continue to model capital planning and facility reinvestment scenarios in SAMS to provide decision-makers with data-informed options and strategies. In addition, master plans for County departments and large properties will provide decision-makers with level-of-service and associated capacity analysis to guide short and long-term investment strategies.

Asset performance declines over time. Providing decision-makers with information about the cost and building performance enhancements of different options—such as maintain/repair, renovate (refurbish), or replace—guides strategic decisions to extend the time an asset is high performing.

Decisions on asset use, investment, and disposition have a long-term financial impact both on overall County resources and on service delivery.

Typical Asset Management Questions:

- How much do we need to invest in existing buildings to meet public service goals?
- Should we replace existing buildings with new buildings?
- Should we lease or build a new facility to meet new public service functions?
- What is the best way to use vacant or underutilized property?

Continue to Define Levels of Service as a Basis for Near and Long-term Investment Decisions

Asset management decisions begin with deciding what level of service to provide based on the availability of resources, and then developing a business or operational plan to provide that level of service. Level of service refers to the



Typical Asset Management Strategies

Maintain/Repair \$	Minimum performance extension, low cost
Renovate \$\$	Good performance extension, higher cost
Replace \$\$\$	Create a new asset at highest cost

type, quality, and quantity of public services the County is able to fund. Collaboration with County departments and budget staff when developing asset management strategies is essential to making financially sustainable decisions about the County's real estate portfolio.

One way to determine level of service is through preparing facility master plans for County departments, for geographic regions of the County, and for large buildings or campuses. These master plans define service level goals, forecast need for services, explore options for meeting forecasted needs through new, renovated, expanded, or leased facilities, and ultimately recommend a long-term plan for achieving these public service goals within the context of the operational budget. Some jurisdictions consider whether a master plan has been completed in making decisions about which projects to prioritize for funding.⁵

When synthesized, information from these master plans supports cross-departmental planning to give the County a comprehensive basis for

making decisions on investing in, replacing, or disposing of assets in support of Board-directed Priorities and emerging public service needs.

Refine Prioritization Methodologies for Projects

Prioritizing asset investments provides a framework for decision-makers to choose among competing needs. The County has implemented a risk-based approach to evaluating and prioritizing facility investment needs, considering condition, capacity, compliance, and efficiency. Ongoing refinements to prioritization methodologies for capital projects and facility reinvestment projects will provide an objective basis for making facility investment decisions. Refinements under consideration include:

- Develop criteria for unmet needs/projects on the horizon;
- Consider how completed master plans affect prioritization; and
- Expand and refine risk-based prioritization methods related to both likelihood and consequence of failure.

The CEO AMB will be publishing its inaugural Five-Year Capital Plan in 2020. Capital plans are a common practice for agencies with significant asset portfolios and large annual capital budgets. Annual updates to the Five-Year Capital Plan will reflect current prioritization of facility reinvestment and large capital projects, and how that prioritization translates into budget requirements over a multi-year horizon.



⁵Financially Sustainable Capital Planning” by Shayne Kavanaugh and Katie Ludwig, Government Finance Review February 2019.

Objective #5

Fund Highest Priority Needs

Use forecasting tools to anticipate future needs, and plan funding for highest priority needs.

Action Items

1. Enhance financial forecasting, cost modeling, and capital planning tools.
2. Develop funding strategies for project priorities based on service level and asset needs.
3. Strengthen alignment with the County's annual operating budget to guide investment decisions.

The depreciation of assets is an ongoing process. With careful planning that considers the various factors described in previous sections of this Plan, future capital and maintenance costs for the portfolio can be anticipated. In so doing, we can move the County towards better management of funding needs, prioritization of asset decisions, and coordination with the County's operating budget.

Enhance Financial Forecasting, Cost Modeling, and Capital Planning Tools

Financial forecasting tools, available in the Strategic Asset Management System modules, inform the development of a multi-year funding strategy as the tools assist with analyses of various sources of information (i.e., building condition assessments, seismic evaluations, ADA compliance, master plans) and competing priorities to determine future priority needs. Understanding the financial requirements of a prioritized set of projects is part of the iterative process of refining capital investment priorities and strategies.

Refinement of cost modeling and capital planning system functionalities to forecast assets that currently are or will be at the end of their useful life, and in need of repair or replacement, supports the County's development of a multi-year funding strategy. These types of financial forecasting tools will allow the County to project life expectancy of assets, expenses, and funding (including debt financing) requirements for the repair or replacement of building systems.



Life cycle financial projections provide knowledge about the state of assets and costs throughout their life cycle, thus predicting which assets are expected to fail over time and what the costs to renew the assets will be. Such projections can be utilized to plan methodical investments in the County's asset portfolio that consider capital, maintenance, and operational investments to extend the useful life of the assets.⁶

A significant challenge to maintaining and developing assets is to identify when and where to expand capacity, and to determine how to fund these developments.⁷ A forecasting tool will help the County develop long-term funding strategies, which align with Board-directed priorities, County policies, and investment decisions to fund highest priority needs.

The following graphic illustrates, that for the aggregate asset portfolio, costs can be

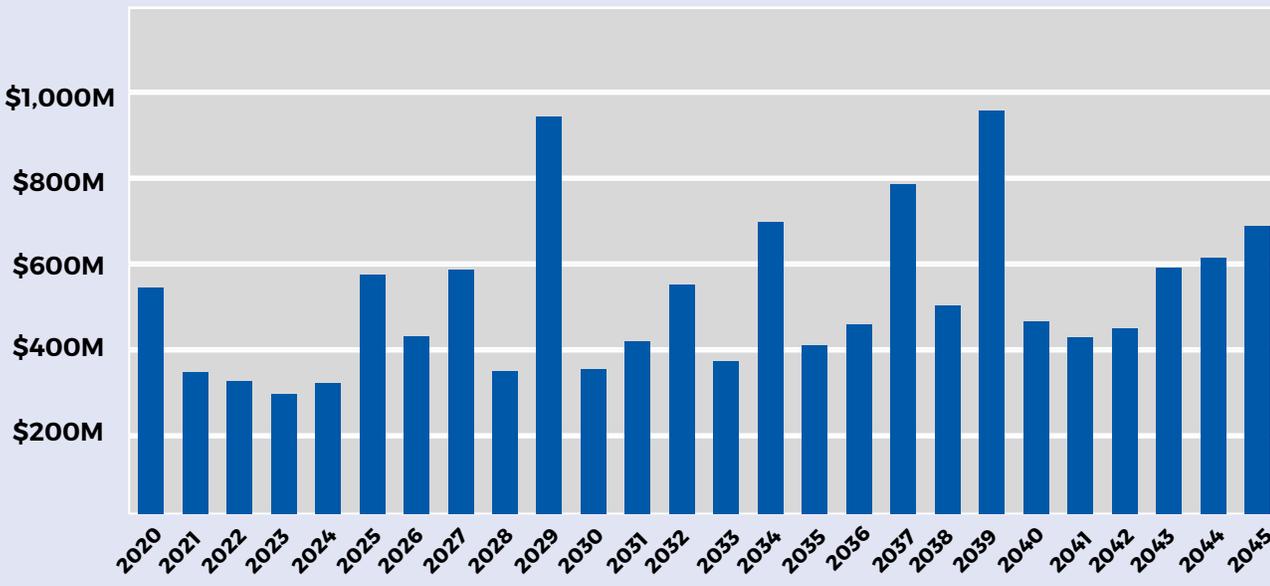
forecasted with reasonable accuracy, allowing for reconciliation of the required level of expenditures with the available funding sources.

Develop Funding Strategies for Project Priorities and Initiatives

As financial forecasting tools continue to be refined, the ability to identify future critical needs (repairs, upgrades, and expansions) and plan for these expenditures will improve. Funding strategies for capital improvement focus on the long-term and utilize a multi-year approach to fund critical needs and long-range initiatives. However, as a continued commitment to funding projects of highest priority, capital improvement planning is also an ongoing process, and funding strategies are often adapted as conditions and priorities change.

It is possible to forecast the cost to replace or repair buildings. This helps organizations plan for future financial demands.

Building System Expiration Forecast



Graph shows forecasts projected for 25 years into the future. The projection shows that the value of expiring building systems is highest in 2029 (\$946M), 2037 (\$781M), and 2039 (\$959M), and is attributed to HVAC systems and electrical components reaching the end of their expected service lives at large County facilities.

⁶Environmental Protection Agency. (2016). Fundamentals of Asset Management. Retrieved from <https://www.epa.gov/sites/production/files/2016-01/documents/epa-9-funding.pdf>

⁷Detter, D. & Folster, S. (2017). Public Wealth of Cities. Washington, DC: The Brookings Institution.



The funding strategies will also identify funding sources (including revenue sources and debt service) and align with the County's annual operating budget. Funding sources may include:

- Fund balance;
- Short- and long-term financing;
- Dedicated revenue streams (expanded fees, lease revenues);
- Grants;
- Private financing/partnerships arrangements that defer County costs; and
- Philanthropy partnerships.

The CEO AMB continues to work on the refinement and further development of a multi-year funding strategy for capital improvement initiatives and maintenance expenses. As part of this analysis, the County will evaluate potential revenue sources and conduct revenue forecasts that have a long-term focus. This will include examining strategies for investments that utilize restricted funding sources, which can only be applied for specific purposes. Based on these analyses, the County can assess available funding sources and capacity for additional debt service to fund high priority needs over multiple years.

The annual Five-Year Capital Plan will provide, for the first time, a multi-year view of planned investments on capital projects of high priority, and facility repairs and refurbishments administered through the Facility Reinvestment Program. The Facility Reinvestment Program is a long-term strategy for addressing the

deferred maintenance backlog and proactively reinvesting in existing County assets to improve their overall condition and prevent further deterioration.

Strengthen Alignment with the County's Annual Operating Budget

An organization's capital improvement plan must align with its operating budget so that an ongoing revenue stream is in place for operations as a precondition of making a capital investment. The County's funding strategy must also recognize the critical linkage between capital expenditures and ongoing operating costs. Over the life of an asset, the cost of operations far exceeds the cost of capital, making the operating budget strategy of critical importance. Effective capital planning should strive to reduce operating costs wherever possible.

In many cases, funding for capital construction, ongoing maintenance, debt service, and other asset expenditures is drawn from the County's operating budget. Therefore, careful planning and reliable data is essential in order to weigh decisions on the allocation of limited resources.

The County has prudently managed its finances and in 2019 it achieved the highest credit rating in its history. Maintaining this is an essential part of its long-term financial strategy. As part of this, the use of debt financing for assets must be carefully managed, as it impacts our overall credit worthiness, and reduces our future flexibility to respond to crises and changing needs.



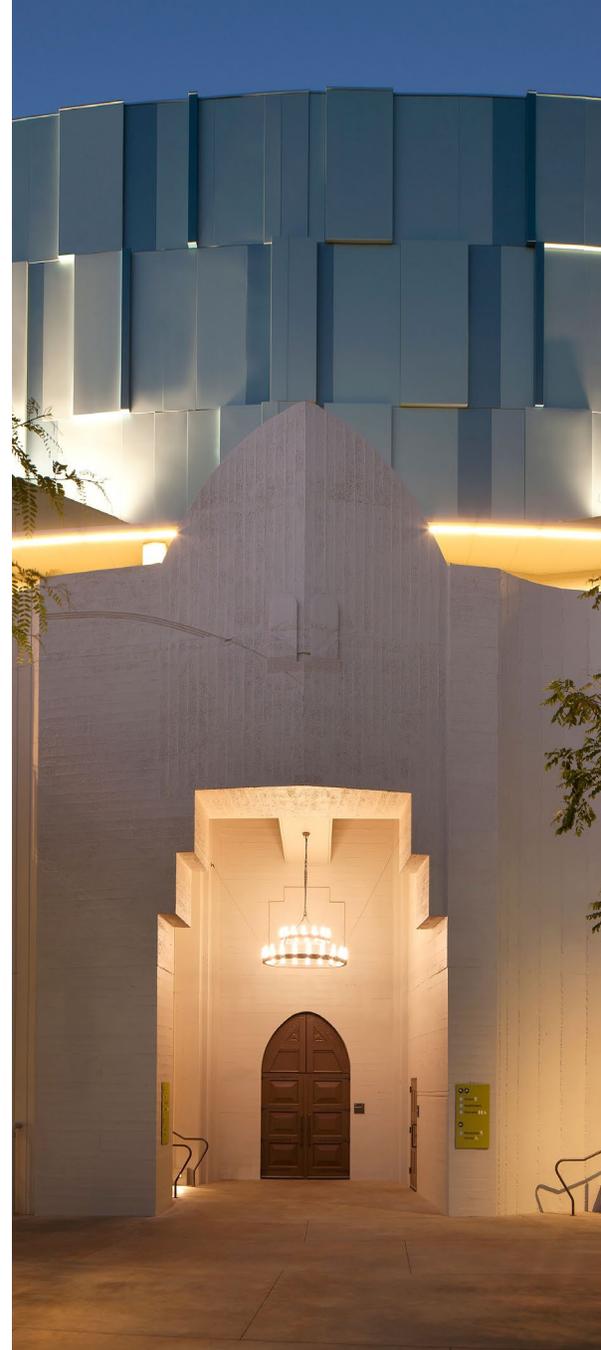
Conclusion

The County controls an extensive asset portfolio, which is essential to the provision of public services. The goals and objectives in this Strategic Asset Management Plan will increase the efficiency and cost-effectiveness of this portfolio while ensuring the physical requirements to provide services to the communities of the County of Los Angeles are met.

This Plan advances asset management strategies to support methodical planning and investment decisions.

The CEO AMB is building on past accomplishments to confront ongoing challenges including limited resources, aging buildings, and changing priorities. By maintaining an accurate asset inventory and conducting comprehensive data analyses, decisions can be guided by a complete understanding of needs and priorities. This understanding will also emphasize the connection between service priorities and strategic decisions made to extend the useful life of County-owned assets, optimize the use of County-owned and leased space, achieve cost savings when feasible, and make investments in highest priority needs.

The 2020 Strategic Asset Management Plan continues to develop an asset management framework to guide investment decisions that are data-driven, and objectively identify high priority projects and investments for the allocation of resources. This Plan will be periodically updated as revisions are made to Board-directed priorities and the County Strategic Plan.



County of Los Angeles
Chief Executive Office

Strategic Asset Management Plan

2020