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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

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April 25, 1989
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Transportation and Community Development and
Budget and Finance Committee

Honorable Members in Session:

SUBJECT: CIP Report Back on Asset Management Program (B902)

SUMMARY

This report is in response to the Joint Committee's request of April 11, 1989 for a report back on the proposed \$150,000 asset management study to establish a Real Estate Asset Management System for financing the City's facility needs.

BACKGROUND

Phase III of the City's Master Planning Study for the Civic Center Complex initiated in September of 1988 broadened the framework of the master plan to accommodate the current and future needs for City Administrative, Public Safety, and Corporation Yard space needs through 2025. A component of this study was the introduction of a financial strategy that would avoid reliance on current General Fund operating revenues and General obligation bonds. This financial strategy consists of a proposed "Asset Management Program" that would provide revenue for the City to meet urgent space needs such as a Public Safety Complex as well as future space requirements.

DISCUSSION

Asset Management is a term widely used in the real estate industry. Asset Management is the process of proactive decision making to maximize the value and revenue potential of real estate. The scope of asset management is broad and complex, involving property management, market analysis, valuation, preventive maintenance, and marketing.

The concept behind asset management is to develop a dedicated income source by pooling existing City owned assets and managing them in a fashion that achieves full financial benefits.

The rationale for asset management can best be summarized as:

- o more efficient use and occupancy of property by the City;
- o availability of financial resources to maintain City facilities;
- o maximizing capital budgeting by leveraging all financial resources such as real estate equity;
- o maintenance of an asset data base that promotes more effective and quicker response to requests (both internal and external) to use or value real property;
- o the ability to compare options and decide among various courses of action for use of real estate.

The goals of public asset management are outlined as follows:

- o to maximize real estate value, minimize real estate cost, and in the process advance the public good (via better urban design, or creation of jobs through construction or enterprise location);
- o to enable rational decisions on questions involving real estate: "Should we own or lease our premises?" "Keep versus sell?" "Stay versus move?";
- o to measure the benefits or drawbacks of property and buildings currently being used to provide services or house local government support activities. Employee morale, productivity, energy costs, and profitability are some of the factors that an effective asset management system considers;
- o to take advantage of market momentum by initiating public-private actions that make full use of the local government's advantage as a strategic owner, occupier, user, and regulator of real estate;

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- o to improve the efficiency of planning, budgeting, and maintenance in all local government departments that use real estate.

Few public entities are treating their real estate as a strategic asset to be proactively managed. However, the following public entities have developed Asset Management Programs: State of California, County of Orange, County of Los Angeles, Culver City, City of Long Beach, City of San Diego, City of Riverside, City of Redondo Beach, City of Denver, and City of Lakewood, Colorado. Most of these cities are similar to Sacramento in that they are considered desirable places to live and work. The resulting pressures are those caused by growth and the related needs for an expanded range of City services. City revenues are not, however, keeping pace with the expanded needs. Ultimately, growth causes competition among funding requests since not all requests can be funded with available resources. The purpose of asset management is to provide a source of revenue that can be dedicated to expanded needs. In the case of Sacramento, one of the most urgent needs is space expansion for public safety services. The Master Planning Study for the Civic Center Complex has identified this need and proposed options to satisfy the need. The asset management study will identify and recommend options to finance such a complex with a new revenue stream.

CONCLUSION

In order for the City to effectively provide for current and future operating department space needs and community facilities while avoiding a reliance on the General Fund as a funding resource, a new revenue resource must be developed. The development of this new revenue source can be as simple as an "Asset Management Program" to manage its real estate as a financial resource. It is recommended that an Asset Management Study Task Force be established, a consultant retained through the RFP process. The consultant would develop a property inventory, financial strategy, organizational structure and strategy and policy recommendations for the implementation of a business plan for a City Asset Management Program.

FINANCIAL DATA

Staff has requested \$150,000 in the FY 1989-90 Capital Improvement Program (B902) to fund this project.

In addition to City owned administration office space, the City currently leases 105,323 sq. feet at an annual cost of \$1,562,159 (See Exhibit I) and is presently in need of additional space to relocate several activities who have outgrown the existing space. Presently, the most critical space need is that of an expanded Public Safety Complex. Temporary measures are provided in the Proposed 1989-90 CIP Budget to renovate some non-usable space in the Hall of Justice, but this does not alleviate the overcrowding. Therefore, the space need of public safety is both

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an urgent and a top priority that should be addressed in the asset management study.

Exhibit II which was provided by the consultants for Phase III of Civic Center Complex Study, illustrates a Preliminary Strategic Financing Plan showing potential revenues that could be developed through a City Asset Management Program.

POLICY CONSIDERATION

Implementation of an Asset Management Program will require new, significant policy considerations by the City Council. Upon completion of the program development phase, the task force will return to the Joint Committee with policy issues. Listed below are a number of policy issues which ultimately will have to be addressed by the Joint Committee and Council:

- o Dedication of a specific revenue source for facilities and lands only;
- o Transfer of City assets to an Asset Management Fund;
- o Management of City assets based on a highest and best use approach;
- o Establishment of an Advisory Board to guide the City Council;
- o Start-up funding.

MBE/WBE EFFORTS

This is a report back on the CIP and does not involve the MBE/WBE program.

RECOMMENDATION

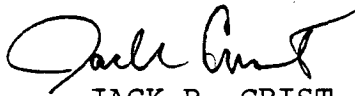
It is recommended that the Joint Committee recommend to the City Council the following action plan to be incorporated as a part of the 1989-90 CIP Operating Budget Resolution:

1. approve the \$150,000 requested in the FY 1989-90 CIP budget for CIP (B902);
2. direct staff to prepare an RFP for obtaining the consultant services; and

3. establish an Asset Management Study Task Force of nine members:

- 1 - City Council Representative
- 1 - City Manager Representative
- 1 - Director of Finance
- 1 - City Treasurer
- 1 - Director of General Services
- 4 - Private Sector Representatives
(development/land use attorney, commercial real estate broker, property manager, Metropolitan Chamber of Commerce, etc.)

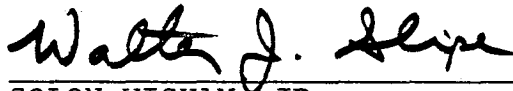
Respectfully submitted,



JACK R. CRIST
Deputy City Manager

Attachments

RECOMMENDATION APPROVED:



SOLON WISHAM, JR.
Assistant City Manager

CONTACT PERSON: JACK R. CRIST
449-5704
FRANK MUGARTEGUI
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All Districts
May 2, 1989

CITY OF SACRAMENTO
SCHEDULE OF LEASED OFFICE SPACE
AND ANNUALIZED COSTS

	13th & I Associates 122 I St. <u>4 Floors</u>	1017 J St. Associates 1023 J St. <u>2nd Floor</u>	Ingemanson & Young 927 10th St. <u>4 Levels</u>	Helmsley-Spear 640 Bercut Dr. <u>Bldg. #5</u>	<u>Totals</u>
Agreement No.	A-83155/A-85122	A-87166	A-861233	A-86078	
Square Footage	54,289	11,113	22,371	17,550	105,323
Lease Expiration Date	5/1/91	2/28/91	6/1/92	2/1/92	
Terms	60 Months	36 Months	60 Months	60 Months	
		<ul style="list-style-type: none"> o <u>Hold over</u> 1.25%/Mo. o Option to extend to one year periods with 90 day notice rental based on CPI 	<ul style="list-style-type: none"> o City pays for utility rate increases above 7/1/86 rate base o <u>Hold over</u> \$780/Day unless lessor consents 	<ul style="list-style-type: none"> o City pays for utility Rate increases above 7/1/86 SMUD rates o Option to renew 5 yrs. @ fair market value o <u>Hold over</u> - \$18,600/Mo. Month to Month 	
Cancellation Clause	None	None	None	None	
Annual Lease Cost	\$690,480	\$146,692	\$251,760	\$194,583	\$1,283,515
Additional Costs -					
Taxes	68,587	-0-	-0-	-0-	68,587
Utilities	115,951	-0-	8,617	5,098	129,666
Custodial	33,00	-0-	-0-	-0-	33,000
Insurance	9,393	-0-	-0-	-0-	9,393
Maintenance-Elevators	10,915	-0-	-0-	-0-	10,915
HVAC	8,304	-0-	-0-	-0-	8,304
Other - Pest Control	264	-0-	-0-	-0-	264
Maintenance & PM	<u>18,515</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>18,515</u>
	\$955,409	\$146,692	\$260,377	\$199,681	\$1,562,159
Cost/Sq. Ft.	\$1.47	\$1.10	\$.97	\$.95	\$1.24

TABLE 3

**PRELIMINARY STRATEGIC FINANCING PLAN CASH FLOW PROJECTION
SACRAMENTO CIVIC CENTER DEVELOPMENT ALTERNATIVE II**
(in thousands of future dollars)

Costs	Selected Years During Period of Analysis							
	1992	1996	2000	2005	2010	2015	2020	2025
Occupancy Costs (Debt Service)	\$6,958	\$6,958	\$16,970	\$16,970	\$16,970	\$16,970	\$16,970	\$10,012
Interim Leasing Costs	\$316							
Operating & Maint. Costs		\$1,830	\$4,823	\$5,976	\$7,415	\$9,216	\$11,482	\$14,320
Total Costs	\$7,274	\$8,788	\$21,793	\$22,946	\$24,385	\$26,186	\$28,452	\$24,332
Revenues/Savings								
Private Lease Payments Forgone (Excluding Enterprise Funds)	[1]							
Existing Leased Space	\$0	\$180	\$2,318	\$2,820	\$3,430	\$4,174	\$5,079	\$6,179
Expansion Space	\$0	\$591	\$2,913	\$4,953	\$7,738	\$11,499	\$16,527	\$23,192
Asset Management - Conservative Revenues	[2]	\$27	\$3,735	\$9,385	\$21,608	\$26,929	\$39,418	\$72,245
Lease Revenue From Surplus Civic Center Building Space	[3]	\$0	\$2,771	\$4,539	\$4,418	\$4,031	\$3,270	\$0
Enterprise Funds	[4]							
Direct	\$0	\$0	\$1,051	\$1,104	\$1,170	\$1,252	\$1,356	\$1,485
Indirect	\$0	\$0	\$380	\$399	\$422	\$452	\$490	\$536
Parking Revenues	[5]	\$0	\$0	\$420	\$512	\$625	\$763	\$1,136
Utility Users Tax	[6]	\$1,873	\$4,773	\$6,989	\$9,644	\$10,291	\$11,100	\$12,119
General Fund	[7]	\$0	\$0	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Revenues/Cost Savings	\$1,900	\$12,050	\$31,995	\$49,458	\$58,636	\$75,928	\$114,736	\$130,862
Project Surplus (Deficit)	(\$5,374)	\$3,262	\$10,202	\$26,512	\$34,251	\$49,742	\$86,284	\$106,530

[1] Includes operating and maintenance expenses.

[2] Includes \$304,000/yr. in rental income from leasing Plaza office building in 1996 through 2025 and \$100,000/yr. in rental income from leasing 1391 35th Ave. (Water/Sewer office bldg.) in 2000 through 2025. Both revenue streams escalated @ 4% annually.

[3] Based upon building program and space requirements presented in Civic Center Report. Revenues based upon surplus building space (net leaseable) and market rate rent (excluding O&M charges).

[4] Direct Enterprise Fund contribution based upon estimate that Enterprise Fund space will account for approximately 8.3% of administration office space and therefore pay 8.3% of the administration building debt service and O&M expenses.

Indirect Enterprise Fund contribution based upon estimate that Enterprise Funds reimburse the General Fund approximately 3% of the total operating budget. Therefore through indirect activities the Funds pays an additional 3% of the administration building debt service and O&M expenses.

[5] Based upon a monthly parking rate of \$25/space X 1,213 space garage X 75% occupancy.

[6] Based upon projections in Budget/Finance Com. report "Ballot Measure To Finance Public Safety Service," 7-21-88.

[7] Contribution not to exceed public safety complex debt service/O & M expenses and 25% of projected annual revenues.

7 The City unfunded pension liability related to the SCERS System (Sacramento City Employees Retirement System) is being retired faster than previously anticipated due to superior investment performance. It is estimated that around the year 2,000, approximately \$4 million in City resources could be redirected to the Asset Management Program as the pension liability is retired.

Source: "City of Sacramento Civic Center Complex Phase III Report"

Kaplan McLaughlin Diaz; Williams - Kuebelbeck & Associates, Inc.;