

**AUDIT COMMITTEE**

Report to the
Board of Harbor Commissioners

“FOR INFORMATION ONLY”

DATE: APRIL 9, 2013

TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS
DOUGLAS KRAUSE, CHAIR
SUNG WON SOHN, Ph.D., MEMBER

FROM: REAL ESTATE

SUBJECT: ASSET MANAGEMENT POLICY

SUMMARY:

The City of Los Angeles Harbor Department's (Harbor Department) real property asset portfolio includes approximately 10,000,000 square feet of property improvements (primarily wharves, piers, engineered/paved backlands, on-dock/near-dock rail, and buildings). The net book value of the improvements, excluding land value, is approximately \$1.47 billion. The majority of the Harbor Department's portfolio is comprised of Harbor Department-owned, tenant-operated facilities. Resource constraints and management practices over time have impaired the ability of the portfolio to fully support the Harbor Department's mission.

The Port of Los Angeles 2012-2017 Strategic Plan (Strategic Plan) identifies three key result areas: competitive operations, strong relationships, and financial strength. Additionally, the Strategic Plan outlines seven strategic objectives which support achievement of the key results. These objectives serve as the guiding principles of the overall strategic management of the Harbor Department's real property assets. The seven objectives are:

1. Develop and Maintain World Class Infrastructure
2. Retain and Grow Market Share
3. Advance Technology and Sustainability
4. Optimize Land Use
5. Create a Positive Workplace Culture
6. Increase Stakeholder and Community Awareness and Support
7. Strengthen Financial Performance

SUBJECT: ASSET MANAGEMENT POLICY

The Harbor Department operates in a world of increasing competition, rising energy costs, shifting demand for containerized cargo, and changing environmental and land use regulations. As a result, the Harbor Department is developing a comprehensive real property management program in order to utilize the assets under its control in a more efficient and effective manner. Among other management objectives, the program addresses how the Harbor Department will approach consolidation of facilities and reduce asset holdings, as necessary, and when it is in the best interest of the citizens of Los Angeles and California.

It is important to understand the value of the Harbor Department real estate assets and the effect of those assets on the Harbor Department's economic performance and obligation to promote tourism and public access to the water. In doing so, Management can recommend and implement better business decisions. These decisions can have either short-term or long-term impacts on Harbor Department priorities for land use, development, and disposition. All Harbor Department decisions will be consistent with policies approved by the Board of Harbor Commissioners, the California Coastal Act, the California State Lands Commission, the Los Angeles City Charter, the Los Angeles City Administrative Code, the State Tidelands Trust Grant, other City policies, and Federal, State and local mandates and regulatory requirements, as applicable.

The Harbor Department's assets will be managed in an efficient and effective manner to ensure that the real estate portfolio meets current and future needs by the most economical means practicable. The Harbor Department will also manage the portfolio to seek balance in investment and promotion of projects to "allow broad public access to the Tidelands and, therefore, enhance the public's enjoyment of these lands historically set apart for their benefit¹."

The attached draft Asset Management Policy documents the scope and approach staff recommends for the Harbor Department to undertake. The draft policy document has been circulated and shared with Division Heads and Senior Executive Staff to solicit input and feedback prior to submittal to the Audit Committee. By shifting the thinking to that of a portfolio management approach, the Harbor Department will build upon the trend of managing to the highest and best use of the various assets in the portfolio and maintain the economic diversity of the Harbor Department's holdings.

¹ Provision of the California State Lands Commission, *The Public Trust Doctrine*, Id. at p. 414; *Martin v. Smith* (1960) 184 Cal. App.2d 571, 577-78.