

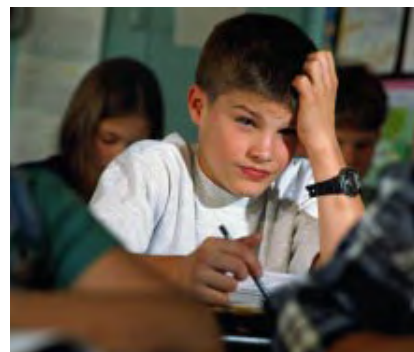


Reason

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SUGGESTIONS FOR THE MAYOR: HOW TO TACKLE SOME OF L.A.'S PROBLEMS

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POLICY
BRIEF
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Table of Contents

Introduction.....	1
Making Our Freeways Work Better	2
A. Toll Truckways.....	2
B. Managed Lanes Network.....	3
C. Tunnels for Missing Links	4
D. Conclusion	4
Improving the Transit System	5
A. Prioritize Properly: Serve the Poor First.....	5
B. Let Competition Improve Bus Service	8
Helping Our Schools.....	10
A. Tackle School Funding Formulas	10
B. Use Competition to Reform Low-Performing Los Angeles Schools.....	11
C. Support Merit Pay and Differential Pay for Los Angeles Schoolteachers.....	12
D. Shift to a Value-Added Testing System	12
E. Help Monitor School Construction Funds	12
Using Competition to Improve City Services.....	13
Improving Asset Management in the City of Los Angeles.....	15
A. Create a Centralized Inventory	16
B. Align Assets with City Priorities	16
C. Sell Surplus Property	17
D. Conclusion	17
Next Steps and About the Authors.....	19
Endnotes.....	21

Part 1

Introduction

With a city budget of over \$5 billion and over 35,000 employees to manage, the next Mayor of Los Angeles—whether Mayor Hahn in a second term or a new mayor—faces many decisions that are going to affect the quality of life of Los Angelenos. He will be offered a lot of advice on how to meet the challenges and take advantage of the opportunities he has, not only in managing the city government but showing leadership on issues of vital importance to city residents. Various groups support differing issues during an election, but a smaller set of issues will have long-term effects on life in Los Angeles. Reason Foundation offers here a set of recommendations on a few of those key issues:

- Making Our Freeways Work Better
- Improving the Transit System
- Helping Our Schools
- Using Competition to Improve City Services
- Better Managing City Assets

These issues cut to the core of quality of life in Los Angeles and a mayor that can make real progress in improving transportation, schools, and city services without raising taxes or fees is going to create new jobs and make Los Angeles a better place to live.



Part 2

Making Our Freeways Work Better

by Robert W. Poole, Jr.

The next mayor of Los Angeles could have a profound impact on the freeway system. That may not be obvious, since the freeways were originally planned and developed by Caltrans. But thanks to former Sen. Quentin Kopp's SB 45, the key decisions about new freeway projects are now the responsibility of the designated transportation agency in each county. In Los Angeles's case, that agency is the Metropolitan Transportation Authority. And the mayor of Los Angeles and his three appointees constitute four of the 12 members of the MTA's board. While not a majority, one third of the board can carry a lot of weight, especially if they have a mandate for change.

And that is what a mayoral candidate could run on—a mandate to reduce congestion on the freeways, offering meaningful relief to all L.A. motorists. This relief would come from three major changes to the freeway system: adding truck-only toll lanes to the most truck-intensive corridors, developing a network of congestion-relief “managed lanes” on nearly the entire freeway system, and filling in key missing links in the system via minimally disruptive tunnels. These multi-billion-dollar projects could be funded largely via tolls, paid willingly by motorists eager for faster and more reliable trips and by trucking companies willing to pay for large productivity gains. Reason Foundation has researched all three of these ideas.

A. Toll Truckways

The basic idea is to create a win-win proposition: make it worth truckers' while to pay tolls to use special new lanes so they will move out of regular lanes, improving mobility for everyone else. What would create large value for truckers? Two things: reliable high speeds and greater payloads. Toll truckways would use value-pricing to keep their traffic moving at 60 mph at all times. That would permit a short-haul truck to cover 60 percent more revenue-producing miles during a driver's shift, compared with braving the congestion-choked freeways. And allowing double- and triple-trailer rigs on these heavy-duty, barrier-separated new lanes, would permit payloads 50 to 100 percent greater. Combined, these factors would justify tolls in the \$1/mile range for heavy trucks. And that turns out to be enough to finance multi-billion-dollar toll truckways on truck-intensive freeways such as the Long Beach (I-710), Pomona (SR 60), and Santa Ana/Golden State (I-5).¹ This idea already has the support of the Southern California Association of Governments (SCAG). But it must get added to the MTA's long-range transportation plan in order to happen.

Figure 1: Toll Truckway Route for L.A.



B. Managed Lanes Network

The greater Los Angeles area has one of the country's largest networks of high-occupancy vehicle (HOV) lanes. Some portions of it are popular, to the point of congesting at rush hours. Others are lightly used, raising questions of unfairness to the drivers who can't use them but whose gas taxes have paid for their construction. Still other freeways like the Santa Monica (I-10) and Ventura (US 101) don't have them at all, and the enormous cost of adding them makes their future highly questionable. Two years ago Reason proposed that the concept be changed to high-occupancy toll (HOT) lanes. Instead of being open only to those who carpool, such lanes would serve anyone willing to pay a market-price toll, which would vary according to the density of traffic.² This kind of "value pricing" keeps traffic flowing smoothly at the speed limit even at rush hour, as can be observed every day on the HOT lanes on SR 91 in Orange County and I-15 in San Diego County. We proposed converting all existing HOV lanes in Los Angeles and Orange Counties to super-HOT lanes, and using the resulting toll revenues to finance the build-out of similar lanes on the freeways now lacking them. The result would be a seamless network of congestion-relief lanes, region-wide, and 86 percent of its \$11 billion cost could be paid for out of toll revenues.

The benefits of such a network would be enormous. First, emergency vehicles would always have a way to get through to where they are needed. Second, every motorist in the area would have "congestion insurance"—i.e., the peace of mind knowing that when you absolutely, positively had to get somewhere on time, you'd have a way to do so. And third, transit agencies would get an uncongested guideway system for regionwide express bus service that would be far superior to today's mix of congested freeway lanes and sometimes-functioning HOV lanes.

C. Tunnels for Missing Links

Deep-bore tunneling has become practical for tubes as large as 40 to 50 feet in diameter. This method was used to create the Channel Tunnel between Britain and France, and to develop urban toll tunnels in Paris, Sydney, and other world-class cities. There are at least three possible missing links in the L.A.-area freeway system that are good candidates for connection via such tunnels.³ The longest-standing one is the portion of I-710 that was supposed to run through South Pasadena. Closing this gap would produce huge benefits in time savings, goods movement, and relief to surface streets. But the only way it could be politically acceptable would be as a deep-bore tunnel that would avoid the harm of cutting the community in two. A second much-needed link is a direct route from the Glendale/Pasadena area to Palmdale and its would-be airport. Such a link could cut the drive time from downtown L.A. to Palmdale International by 45 minutes, making it possible to finally realize that site's airport potential. A recent Reason study found that a \$3 billion tunnel beneath the mountains and national forest could be self-funding via tolls. (A third such route, though not in Los Angeles County, would be a similar tunnel under the mountains and national forest between Riverside and Orange Counties.)

D. Conclusion

The projects proposed here have several features in common. They would all serve *motorists*, who even after the next 25 years of heavy public investment in transit systems will still account for more than 90 percent of all trips in the region, according to SCAG. They would all rely on voluntary payment of tolls by people who chose to use these new options, finding them more valuable than using the existing freeway lanes. All would be funded mostly via toll-based financing (though all would require planning and permitting by the MTA, Caltrans, etc.). But they can only come about if the MTA board makes them key priorities. And that is something the mayor could strongly influence.

Part 2

Improving the Transit System

by Ted Balaker

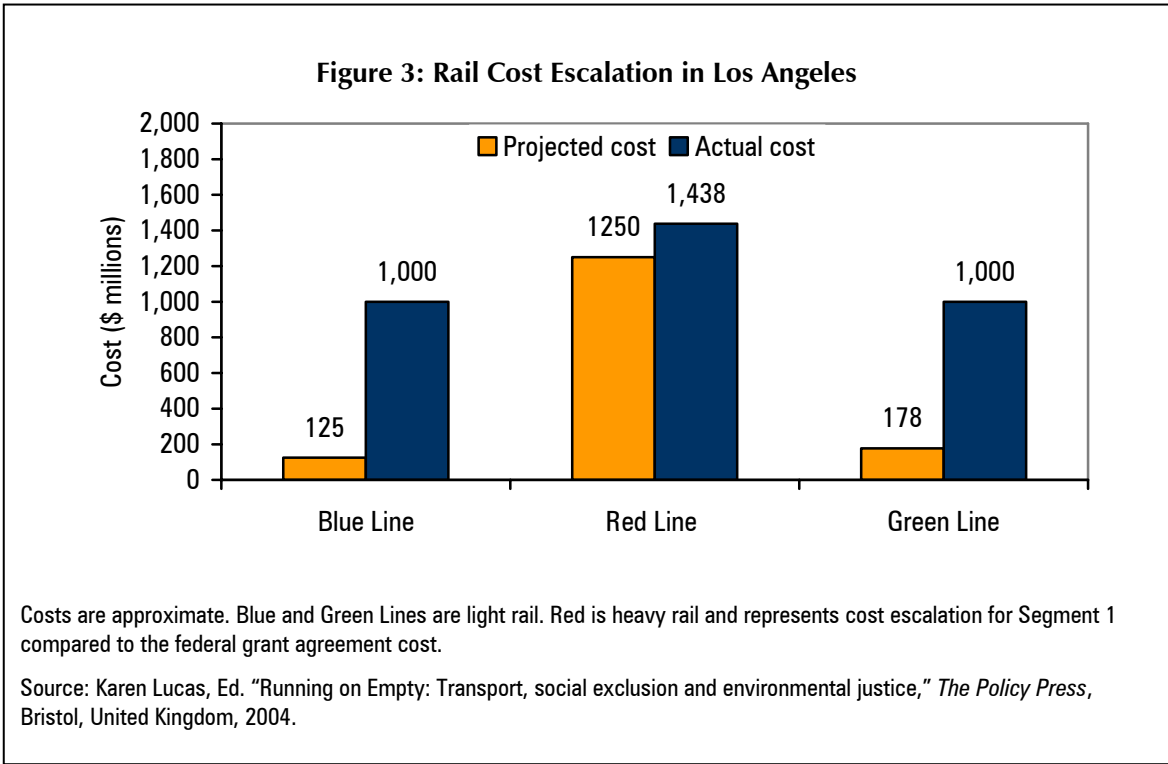
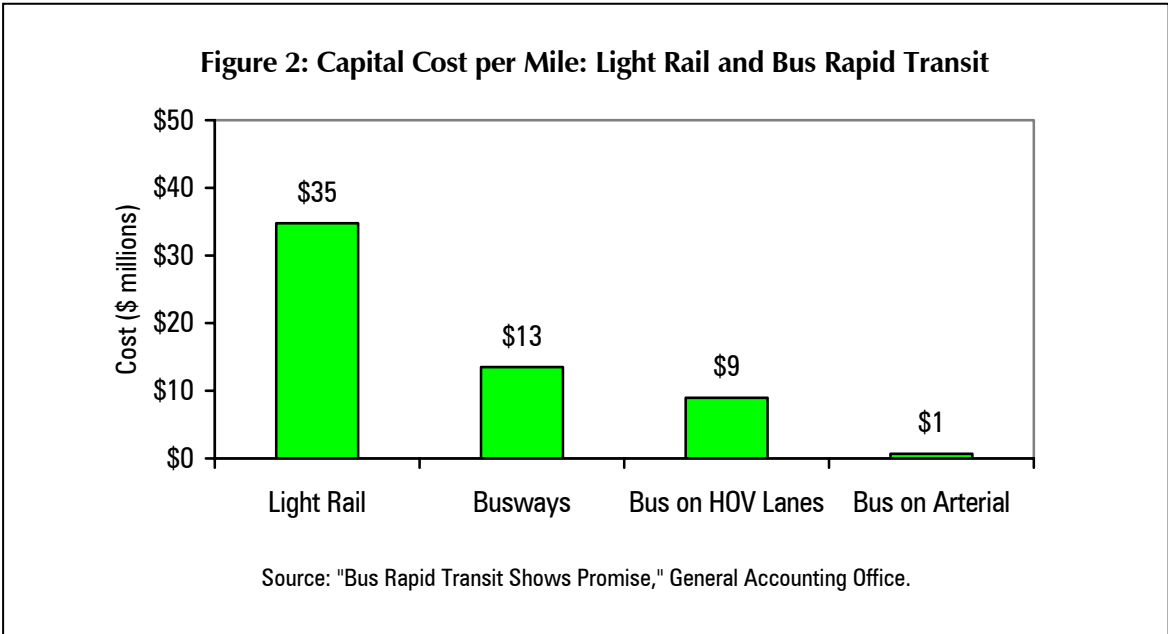
Los Angeles's transit system is a relatively small but important part of the transportation network. While the mayor does not control the transit system, as the city's top elected official he is looked upon to provide leadership and to work with other agencies to improve the system that serves the city.

A. Prioritize Properly: Serve the Poor First

The vast majority of Americans rely on their own cars for transportation. Transit agencies see this and typically decide that the best way to boost transit ridership is to woo motorists. Unfortunately, the desire to get motorists—commonly called “choice” riders—out of their cars leads to an inversion of priorities. Scarce resources go toward comparatively wealthy motorists, and away from those most in need of reliable transportation—the poor. Los Angeles has long struggled to deal with the tension between serving motorists and serving those who have no other transportation choice.

Commuters will change their habits only if what they are offered is better than what they currently have. Officials who want motorists to become transit users know they must compete with the convenience and flexibility a car offers. They must also contend with countless creature comforts, such as heated seats, air conditioning and satellite radio. It is much more costly to create a product that will convert motorists to transit than to tend to the needs of the transit-dependent poor. Still, officials remain determined to get drivers out of their cars, and they regard rail as the form of transit most likely to accomplish this goal. Today in Los Angeles the average subsidy for each new bus passenger is about \$1; for each new rail passenger (Blue, Gold, Green and Red Lines) the figure stands at about \$19.

Increased rail spending often comes at the expense of the bus, the transit mode that offers the poor the greatest amount of mobility improvement. Welfare advocates of all political stripes point out that access to quality transportation is crucial to the poor's ability to improve their lives. The more area they can get to quickly, the greater chance poor people have at landing a better job or improving their résumés by taking classes. Since rail costs so much more than bus (see Figure 2), a pot of funds devoted to rail will yield far less mobility improvement than if the same pot were devoted to bus. Moreover, rail has a long-established reputation for cost overruns. All transportation projects tend to cost more than initially projected, but rail projects' average cost escalation is roughly five times that of road projects, and Los Angeles has a history of being stung with particularly sharp cost overruns (see Figure 3).

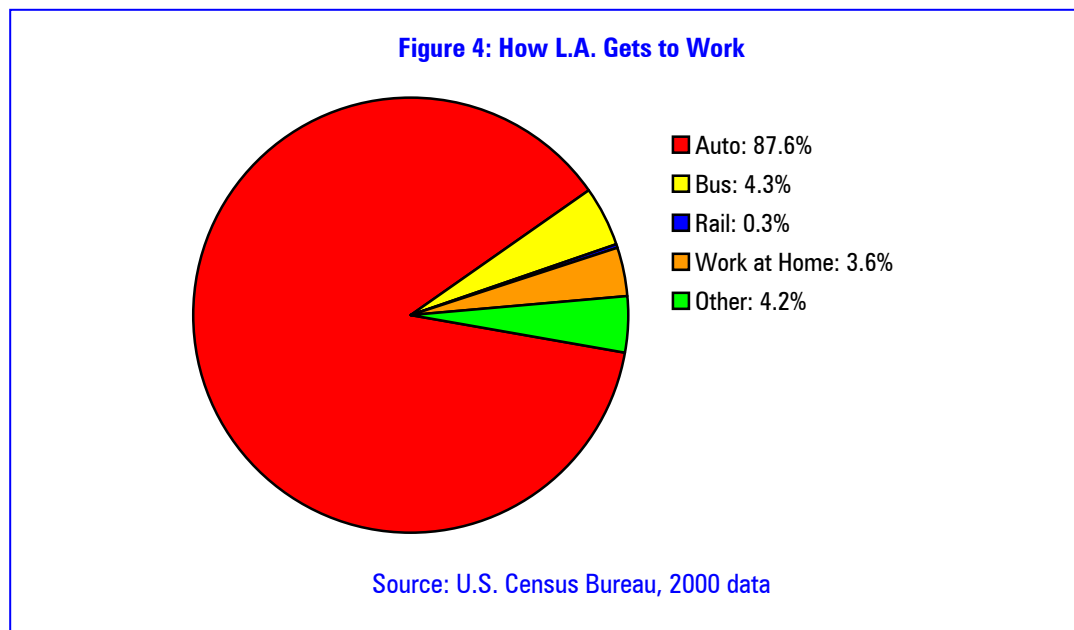


Rail’s high cost and long funding and environmental review process mean that even if area voters gave the nod to tax hikes as quickly as transit officials could propose them, rail could probably never serve anything wider than a few select corridors. It is, however, comparatively fast, cheap, and easy to add busses and bus stops, particularly since the infrastructure (the road) has usually been built already. Since public funds are always limited, the more Los Angeles devotes itself to rail, the less it can provide widespread transit service to those who need it most.

Beginning in 1986, local policymakers began diverting funds from a successful bus ridership program toward rail construction. Los Angeles has spent billions on rail (heavy, light, and commuter). Although Los Angeles is typically regarded as the epitome of American car culture, it has actually created the nation's second-largest commuter rail system (over 400 miles). But even with all the extra expenses associated with rail, few motorists have been won over by it. Only a fraction of 1 percent of Angelenos get to work by rail. Even though massive new rail investments are now in various stages of planning, the Southern California Association of Governments expects that, even by 2030, over 90 percent of Angelenos will get to work by car. Meanwhile, the transit-dependent poor continue to shoehorn themselves into some of the nation's most crowded buses.

Offer motorists their den instead

Instead of spending lavishly to get motorists into rail cars, policymakers should focus on getting motorists to stay home. Such a strategy is particularly appropriate since current and likely telecommuters are roughly the same demographic group (wealthy, educated car owners) officials have tried to court with rail. Motorists might not find rail more enticing than their car, but many Los Angeles commuters prefer their dens to their cars. As Figure 4 illustrates, telecommuters dwarf the number of rail commuters, and they nearly equal the number of bus commuters. Moreover, telecommuting, unlike transit, costs taxpayers virtually nothing.



From 1990 to 2000, Los Angeles enjoyed an impressive 33 percent increase in telecommuting, and telecommuting-enabling technology continues to improve in quality and drop in price, which means there is plenty of growth potential. Policymakers should embrace telecommuting's congestion-relief potential. For example, an analysis of Washington D.C. commuting found that traffic delays would drop by 10 percent for every 3 percent of commuters who work at home.

Yet while telecommuting trends upward, policy often slows its progress. Laws that stifle telecommuting can be found at all levels of government, such as local zoning restrictions against home-based offices. The next mayor should identify and relax local regulations that hamper telecommuting.

B. Let Competition Improve Bus Service

The bus remains the backbone of Los Angeles transit, and the next mayor ought to ensure that bus transportation serves the needs of those who need it most. Decades of slow, spotty, unpleasant and unpredictable service have earned the bus the reputation as the transportation option of last resort. But there is nothing inherently unappealing about the bus. Commuters value certain transportation features (convenience, speed, comfort, cleanliness, etc.) more than transportation modes (bus, rail, car, etc.), but traditional public transit has a difficult time emphasizing customer service. Service is heavily subsidized and fares account for only a small portion of revenue, so agencies have little incentive to be responsive to customers.

Competitive contracting can help boost bus service, treating bus riders no longer as political constituents who must be endured, but as customers who must be served. When asked, bus patrons offer straightforward ways to improve service—more routes, and faster, more frequent, more reliable service. Since competition prods contractors to offer an appealing product, and local government oversight ensures the fulfillment of performance measures, contracted bus service often leads to such improvements. Moreover, improved service is generally accompanied by lower costs.

Done right, contracting yields impressive satisfaction rates. A Transportation Research Board survey notes that—when asked if they had to do it over again—roughly 80 percent of transit managers who chose contracting say they would choose it a second time. These transit managers speak with the benefit of experience, and they offer some important advice for those who consider following their lead.

Transit Managers Give Contracting Advice

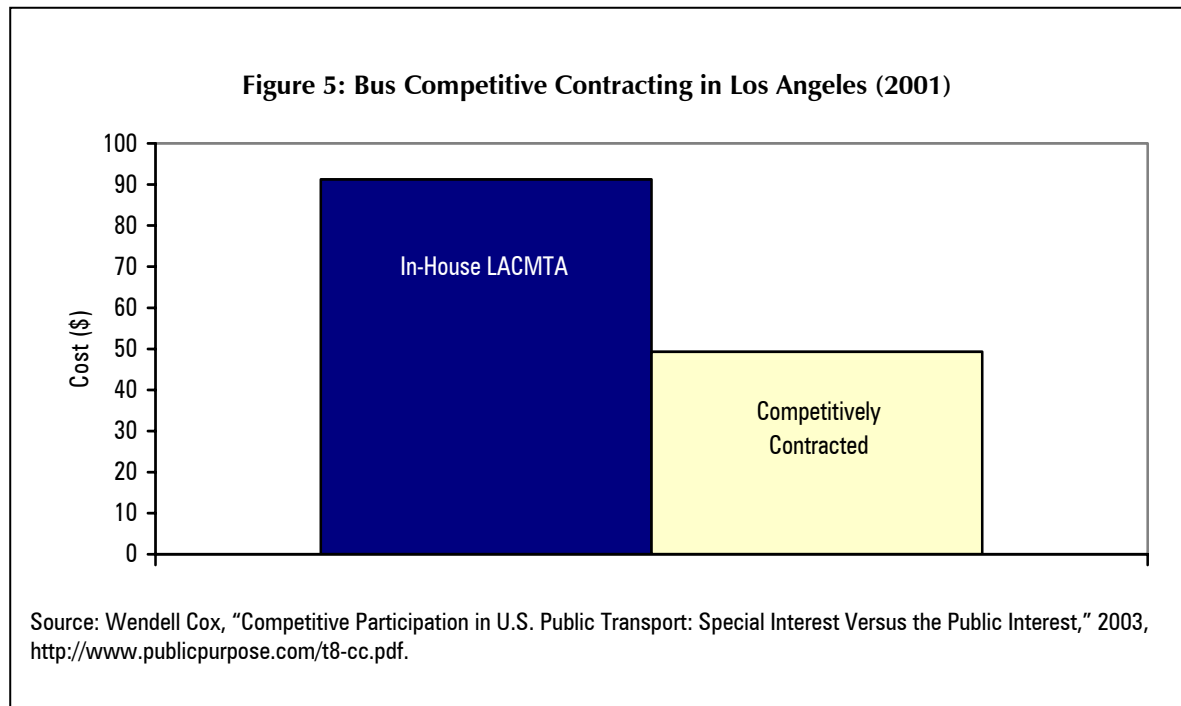
When the Transportation Research Board surveyed transit system managers nationwide on how to get the most out of contracting, their advice was to:⁴

- Anticipate the advantages and disadvantages of contracting, and set realistic expectations.
- Establish a competitive procurement process that invites high-quality proposals and screens out unrealistic proposals and unqualified contractors.
- Prepare an internal analysis of the cost of service contracting as a baseline for examining bids.
- Spell out all contractor responsibilities clearly, monitor performance closely, and communicate with the contractor frequently and openly.



Los Angeles has a homegrown success story in Foothill Transit. The agency contracts all service and has essentially no employees; a management company handles all the central office functions and oversees the contract transit operations. In the L.A. metro area nearly 900 buses are competitively contracted, and contracted services are about 46 percent less costly

than the in-house bus service of the LACMTA. And since only 23 percent of total service is contracted, there is much room for improvement.



Part 3

Helping Our Schools

by Lisa Snell

While the mayor does not control the Los Angeles school system, his position as leader of the city requires that he take the lead on education issues and work to improve our schools with both L.A. Unified and the state government. He could influence L.A.'s schools to become more accountable and effective by following the creative practices of other districts that have successfully dealt with similar problems.

A. Tackle School Funding Formulas

Rather than moving for a break-up of the Los Angeles Unified School District, which is likely to be politically unfeasible and legally challenging, the mayor can marshal the power of his office to move LAUSD to a weighted student formula financing system, which would lead to more accountability and decentralization than a break-up of LAUSD.

A number of school districts across the country and abroad have adopted a funding mechanism for schools that gives local schools more control over resources and leads to increases in student achievement. Pioneered in Canada's Edmonton School District in Alberta in the 1980s, the "weighted student formula" has been imported to Seattle, Cincinnati, San Francisco, and Houston. The funding structure allows individual schools to compete for students and allows principals to control their budgets and tailor their schools to the needs of their specific school populations.

School districts use student characteristics to determine per-pupil funding levels and better match costs with actual student needs. In each case, schools are given responsibility for managing their own budgets in key areas such as personnel, school maintenance or learning materials. In addition, the funding follows the child to each school and is based on the characteristics of the individual child. Therefore, schools have an incentive to improve academic programs and programs for at-risk and low-income students.

San Francisco, with 116 schools and 60,000 students, is in its fourth year of using a weighted student formula for funding and giving more decision-making power to principals and their School Site Councils, made up of parents and school staff. Since implementing the weighted student formula, San Francisco's test scores have improved every year, and it is now the highest-performing urban school district in California.

Similarly, in 2004 the Oakland Unified School District transformed its budgeting formula from a centralized process to “Results-Based Budgeting.” As reported in a new Education-Trust West report, “California’s Hidden Teacher Spending Gap,” the Oakland district allocates funding to its schools based on the number and type of students at each school. Oakland gives each school administrator the flexibility to allocate this funding in whatever way fits the school’s instructional needs. Oakland allocates funds to the school in the same way it receives revenue from the state: unrestricted Average Daily Attendance (ADA) funding is allocated to the schools based on their current year enrollment. According to *Education Week*, Oakland is the only district in the nation that gives principals direct control of their ADA funding.

Los Angeles should follow Oakland and San Francisco’s lead. In his 2005-2006 budget, Governor Schwarzenegger has called for creating a pilot program that would place school resources under the control of each individual school site. Rather than working to break up LAUSD, the mayor should step up to the plate and work with Governor Schwarzenegger to implement true decentralization of Los Angeles schools.

B. Use Competition to Reform Low-Performing Los Angeles Schools

In California, individual schools receive two state rankings. The API scores of individual schools are sorted from lowest (one) to highest (ten) to create a statewide rank. The second ranking is called the Similar Schools rank, showing where a school ranks academically on a scale of one to ten compared with 100 other schools with similar demographic characteristics. Low-performing schools rank a “1” in both the statewide rank and the similar schools rank. A mayor dedicated to quality education would develop a model in which schools with a “Similar Schools” ranking of 1 or 2 for two consecutive years would be required to allow charter schools to competitively bid to operate the school or would offer opportunity scholarships in which school funding follows the child to the public or private school of the parent’s choice. These schools will eventually have to be reformed under the No Child Left Behind Act and this move will proactively create more high-quality school capacity. Los Angeles could follow the lead of other localities that have used competition to help improve outcomes for low-achieving schools.⁵ The mayor should examine market-oriented remedies to increase higher quality school capacity and offer students in failing schools real choices, including these:

- Colorado’s law forbids public schools from being “unsatisfactory” for three consecutive years and allows charter schools to take over persistently “unsatisfactory” schools.
- Philadelphia’s model lets nonprofit and for-profit providers and charter schools compete to run 100 failing schools.
- Florida’s opportunity scholarship program allows students in “F-rated” schools to transfer to other private or public schools.
- Chicago’s “Renaissance 2010” plans to shut down the city’s failing public schools and open 100 new schools by 2010. The plan creates 30 new charter schools and 30 new contract schools by private groups that sign five-year performance contracts with the district, and will also allow 60 of the 100 schools to operate outside the Chicago Teachers Union contract.
- Existing private schools may offer capacity to serve students who are trapped in failing California schools. Local parochial and independent private schools in these low-performing school districts currently have some seats available that low-income children could immediately occupy.

- The mayor should sponsor charter schools. Following the lead of Oakland Mayor Jerry Brown and Indianapolis Mayor Bart Peterson, the mayor could solicit bids for high quality charter schools that would be supervised by the mayor's office. The mayor's office, while not legally a charter-school authorizer in California, could sponsor high-quality charters in partnership with nonprofit groups who would be happy to have a high-profile partner.

The local proposal by the Small Schools Alliance to create small schools with 500 or less students holds great promise for reducing school violence in Los Angeles.⁶ The plan calls on Los Angeles leaders to follow specific practices of high-performing small schools including local control of school budgets, and increased parental involvement, and such measures are effective in reducing school violence.⁷

C. Support Merit Pay and Differential Pay for Los Angeles Schoolteachers

Governor Schwarzenegger has proposed a major shift in policy in regards to teacher compensation. His plan would entail a constitutional measure to switch from the current tenure system to one based on merit raises. The current system is based on the number of higher education units and years of teaching experience across the board. Under Schwarzenegger's plan, individual school districts, in cooperation with their local bargaining units, would determine how to gauge teachers' performance and award raises. Los Angeles's mayor should encourage LAUSD to be an early adopter of merit pay. One local model, the Los Angeles-based Milken Family Foundation's Teacher Advancement Program, has been implemented in local districts in 10 states.⁸ A recent study of TAP that compared TAP schools in Arizona and South Carolina with nonparticipating schools found the TAP schools outperformed the control schools about 70 percent of the time on test scores.

D. Shift to a Value-Added Testing System

In conjunction with a merit pay system the mayor would move toward a value-added testing system that tracks student gains over time. This would demonstrate each teacher's contribution to an individual student's achievement gains or losses. In 2003, California adopted a law that would assign every student a unique identification number by the 2005-2006 school year. The student identification number will allow individual student test scores to be tracked and compiled over time, thus making possible the database necessary for creating a value-added model. The Pacific Research Institute's Lance Izumi has proposed a value-added testing model for California that could be implemented by the next mayor.⁹



E. Help Monitor School Construction Funds

Los Angeles Unified School District has a long history of school construction boondoggles fraught with fraud and mismanagement. The LAUSD is engaged in a \$15 billion school building project from local and state bonds. Given the district's sad history when it comes to construction, a next mayor will have to be ever vigilant in holding LAUSD accountable for its use of bond funds. A December 2004 *LA Daily News* feature again noted that the school construction program was spending bond money on questionable expenses. The next mayor should encourage public-private partnerships for school construction and call for public transparency in the spending of Los Angeles school construction dollars.

Part 4

Using Competition to Improve City Services

by Geoffrey Segal

The city of Los Angeles spends millions of dollars every year carrying out work that is produced in the private sector. Public-private competitions for these services have demonstrated significant savings to governments. Indeed, they have been an effective tool in managing deficits and controlling the growth of government.¹⁰

Competitive sourcing involves the examination of an activity of an agency to determine whether it should continue to be carried out within the agency or should be purchased from an outside entity. Put simply, “should the agency ‘make’ or should it ‘purchase’ this activity?” Government reform experts David Osborne and Peter Hutchinson said in their recent book, *The Price of Government*, “the fastest way to save money and increase value is to force public institutions to compete.” Steven Goldsmith, the heralded former mayor of Indianapolis, described this process as “the Yellow Pages Test.” If a service provided by government is also listed in the yellow pages as being provided by at least two private sector firms, the service is a strong candidate for competition.

As a rule of thumb, competition can typically lower costs 15 to 30 percent while maintaining or improving service levels. This is the challenge the next mayor and council will have—how to confront the deficit without reducing service delivery. The goal should be to *increase the value to taxpayers by providing more and better services for less money.*

According to a vast array of studies by the federal government, academic researchers and others, outsourcing on a competitive basis historically has resulted in cost savings in the range of 5 to 50 percent depending on the scope and type of service.¹¹ Recently the federal government reported that competitive sourcing resulted in a 12-to-1 return on investment. So, for every dollar spent on preparing and holding public-private competitions the federal government saved 12! More importantly, over a two-year period they achieved savings of over \$2.6 billion.

Since 1999 the state of Florida has initiated over 138 competition initiatives for various state services including human resources, highway maintenance, computer help desk, administering Medicaid billing, and food service at state prisons. The state has saved hundreds of millions of dollars with these and other initiatives and has helped avoid deficits and return over \$8 billion in taxes to citizens in the same time frame.

Some of the most robust uses of competition exist in local governments. Water and wastewater services are one of the more commonly competed and contracted out services in the country. A 1999 report examined systems in 29 cities serving over three million customers throughout the United States. The study found that contracting out (via a competition) improved compliance with environmental standards.¹² Prior to entering into a public-private partnership, 41 percent (12) of the facilities were not in full compliance with the federal Safe Drinking Water Act. One year after, all were in compliance with federal water standards. In addition, it cost between 10 and 40 percent less than before.

Los Angeles should aggressively identify activities and functions currently provided by city employees that could be provided under contractual arrangement with private enterprises and hold a competition to determine who should provide the service or activity.

Table 1: Competition Opportunities and Potential Savings (in Millions of Dollars)

Activity	Budget	Potential Savings (Low)	Potential Savings (High)
EMS (Ambulance)	77.1	11.56	23.13
General Services ¹³	200	30	60
Sanitation/Trash	219	32.85	65.7
Convention Center	13.1	1.96	3.93
Information Technology	100	15	30
Personnel	50	7.5	15
Street Lighting	18	2.7	5.4
Street Maintenance	22	3.3	6.6
Street Resurfacing	46	6.9	13.8
Street Cleaning	25.4	3.81	7.62
Street Tree Maintenance	12.8	1.92	3.84
Parking Management	68	10.2	20.4
	\$ 851.4	\$ 127.7	\$ 255.4



Part 5

Improving Asset Management in the City of Los Angeles

by George Passantino

Over the past few years, the manner in which the city of Los Angeles manages its real estate portfolio has shifted from an obscure form of “inside baseball” into one splashed across newspapers and which has become a serious concern to taxpayers. According to recent news reports, the city has spent more than \$100 million on real estate, over each of the past two years, without an apparent strategic framework.¹⁴ At the same time, voters may be asked to raise local sales taxes in May 2005 to increase law enforcement. This raises a serious question of priorities, leading many to ask how the city can afford to buy this land when they can't afford to pay for police service. While it is true that much of the real estate was purchased with bond revenue that can't be diverted for other purposes, bonds require debt service and this drains money from the city budget directly.

Among the many opportunities for reform that the next mayor will have to improve Los Angeles government is the management and disposition of thousands of pieces of city-owned property. Among the specific opportunities for reform are:

- Creating a centralized inventory of all city-owned assets;
- Aligning real estate needs and holdings with city priorities; and
- Selling city-owned properties.

Among these opportunities, divestiture of unneeded assets is most attractive for a variety of reasons.

First, divesting an unneeded property does not impact the delivery of a service. When a property does not directly support program goals, the deadwood can be eliminated without undermining service quality.

Second, asset divestiture typically results in a lump-sum payment of cash. Other governmental reforms often have an implementation or “ramp up” phase during which time savings are not seen. With asset sales, a cash payment is made to the government, just like a family selling a house. In tight budget times, such revenues are very helpful.

Third, divesting city-owned real estate increases the tax base. Publicly owned lands do not pay property taxes nor do they typically produce sales and income taxes. Moreover, in constrained real estate markets with limited developable land, city-owned property represents a needed source of capital for private economic activity.

Finally, systematically reviewing the city's assets portfolio—and divesting unneeded assets—will result in lower maintenance and operations costs, and will free money for other priorities. A good analogy is a typical household garage. The very presence of loads of junk detracts from the care of items that actually do matter. In other words, the cleaner the family garage is, the more likely that priority items will be cared for. The same holds true for city-owned assets. Managing fewer unneeded properties means that more care and attention can be paid to critical assets and functions.

A. Create a Centralized Inventory

One of the most pressing needs that the mayor should confront is the current lack of a centralized inventory of city-owned real property. While some progress has been made in this regard, including the development of a new database to track properties, it still lacks properties purchased by the city's three largest departments, the Department of Airports, Harbor Department, and the Department of Water and Power. For the city to make any meaningful progress in improving the management of its real-property portfolio, it is imperative that such a centralized inventory be created. As a 2004 report commissioned by City Controller Laura Chick suggests:

This database will permit the accumulation of benchmarking data to facilitate decision-making while implementing property management decisions, and provide documented institutional memory in the face of changes in personnel. It will form the basis for planning, maintenance, and operational decisions. The database must be kept up to date, available to all interested City staff, and coordinated and managed by GSD's (General Services Department) Asset Management Division.¹⁵

While it is clear that centralizing information is desperately needed, so too is consolidation of the accountability for this function. Within existing staff, a position should be identified as directly accountable for overseeing this portfolio of property and given the necessary authority to exercise those duties.

B. Align Assets with City Priorities

The ownership and management of real-property assets should not occur in vacuum. Instead, the city's real-property assets must directly and explicitly serve city-wide program goals. For instance, the abandoned purchase of Figueroa Plaza could have potentially reduced the city's lease payments by providing an opportunity for consolidation but it would have required the city to lease out about half of the building to private tenants. Assuming this non-core function would have placed the taxpayers at risk if the rents and occupancy goals were not met.

Once a comprehensive and centralized inventory of city-owned real property is in place, the mayor should commission a comprehensive review of these properties to identify any properties of questionable purpose.



On May 11, 2004, Governor Schwarzenegger signed Executive Order S-10-04, which ordered the California Performance Review (CPR) to identify potentially high-value urban property owned by the state that may warrant disposal.¹⁶ The results, published in November 2004, were staggering. The report identified as much as \$ 4.3 billion in underutilized state-owned real property, to the surprise of many. Importantly, a limited staff from CPR led this review in

consultation with affected departments and agencies over a period of about six months. Los Angeles can conduct a similar review with existing resources. Proceeds from any resulting sales of city-owned land can be used to fund future review efforts.

C. Sell Surplus Property

Identifying properties that are no longer needed by the city is only part of the answer. According to a 2003 audit of the city's Asset Management Division, disposal of surplus property has the highest backlog of all asset-related functions and takes, on average, 12 to 19 months per property.¹⁷ City officials have previously estimated that approximately 2,400 surplus properties exist within the city-controlled inventory.¹⁸

The report goes on to say that, on average, only 11 parcels are divested each year through a process with 14 decision points and over 30 potential steps. It offers a chilling conclusion:

*At the current rate of disposal, the City would be well into the 24th Century before most of its surplus property is sold, assuming that no new property is acquired.*¹⁹

A number of strategies can be pursued to expedite this process, particularly given the huge backlog that exists.

D. Conclusion

Given the significant focus that has been placed on improved asset management in Los Angeles over the past few years, along with the significant opportunities for reform that the mayor faces, the management of city-owned property, as well as the disposal of unneeded properties should be a priority of the new administration. Doing so provides numerous benefits to the taxpayer.

A Mayor's Game Plan for Managing Assets

1. The mayor should immediately order a consolidation of all city-owned real property inventories, including commission-controlled departments. For upcoming vacancies and appointments on these commissions, the mayor should consider the willingness of appointees to pursue this consolidation. Additionally, the mayor should create a position that is singularly accountable for managing the city's asset portfolio.
2. The mayor should commission a comprehensive review of all city-owned real-property holdings to identify properties not linked with program goals.
3. Proceeds from surplus sales should be disbursed to incentivize quick identification and disposal. For instances, the Asset Management Division (AMD) should be funded in part from surplus sales. By making resources dependent upon performance, this should provide adequate incentive for improvement. Similarly, the department that operated the surplus property (Police, Parks and Recreation, etc.) should be given a "commission" for helping identify unneeded property, perhaps 10 percent of proceeds, which could be used for needed one-time capital upgrades. As is stands, departments have few incentives to help because they receive none of the benefits of surplus sales.
4. The mayor should adopt a policy of contracting with the private sector to conduct a market-value disposal of surplus property, given the significant backlog that exists. Such opportunities include partnering with local private real estate brokers. Additionally, rather than conducting its own live auctions, the city should employ readily available online auction markets for the disposal of property. Whereas live auctions require a physical presence and severely limit participation, online auctions are global in their reach and participation. Delegating non-core functions to an outside entity would also help streamline city activities.
5. The mayor should pursue delegating more authority to the Asset Management Division to dispose of individual properties without unnecessary review. A 2003 audit of AMD suggested providing authority to transact any property valued at less than \$10,000. To ensure that the public interest is protected, such transactions sales must occur at fair market value for the properties—perhaps with the notable exception of odd, small parcels of land absent independent productive value. In these cases, the city should quickly donate the property to adjacent landowners, thereby creating more tax base.

Part 6

Next Steps and About the Authors

We encourage the next mayor of Los Angeles to pursue these policy options as a means of sustaining and improving the city's long-run quality of life, and to contact Reason Foundation and the authors for more detail and information on "how-to."

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Endnotes

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