Using Underutilized Assets to Address District Goals and Priorities

Before

After

Presentation to Budget, Facilities and Audit Committee
March 7, 2017
District Faces Financial Challenges

- Structural deficit in District’s operating budget threatens its long-term financial viability, making it difficult to sustain much needed educational programs.

- Bond funds may **not** be used for administrative or operational purposes.

- District needs to reduce costs and develop new sources of revenue.
District’s Real Estate Assets

The District:
- Has 1,200 schools and centers
- Spans 710 square miles of Los Angeles and 31 adjacent municipalities
- Has 21,000 buildings more than 78 Million square feet
  - Downtown LA office market – 68 Million square feet
  - Downtown San Francisco office market – 76 Million square feet
- Owns over 6,400 acres of land = 10 square miles
  - Total area of Downtown, Westlake and Koreatown combined
  - Newhall Ranch – 6,000 acres
  - City of Santa Monica – 8.3 square miles
Ten Square Miles of Land

An area equivalent to Downtown LA, Westlake and Koreatown
Characteristics of Underutilized Assets

- Vacant parcel
- Excess land on a site
- Old, outdated and closed facilities
- Inefficiently planned
- One story versus multi story
- Poorly located to serve its intended purpose or operating group
Types of Underutilized District Assets

- Closed schools and other facilities
- Parking lots
- District facilities located on sites with a high commercial value
- Former agricultural land
- Facilities no longer in optimal location to support mission
- Sites that could be consolidated
- Portions of school sites with excess acreage
Monetizing some of the District’s underutilized assets is one tool available to address District goals and priorities.
CA Ed. Code provides numerous mechanisms to deal with Districts use of assets, all having very prescribed steps to implement:

- **Sell, or Long Term Lease (up to 99 years)**
  - Declare surplus
  - Proceeds must be used for capital outlay, not operating expenses (leasing or ongoing maintenance), unless it qualifies for an exception

- **Joint Use**
  - Makes vacant classrooms, other space in operating school buildings and recreational space available for rent or lease. Priority to other educational or recreational users

- **Exchange**
  - Exchange real property for real property of another on such terms and conditions at the parties may agree

- **Joint Occupancy (up to 66 years)**
  - Allows District’s to enter into public-private partnerships to leverage underutilized assets for the purpose of providing value to the District
## Options Analysis

<table>
<thead>
<tr>
<th>OPTIONS</th>
<th>OPPORTUNITY</th>
<th>CHALLENGES</th>
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</thead>
<tbody>
<tr>
<td>Sale</td>
<td>Generate cash, dispose of land and their associated costs and liabilities</td>
<td>District must declare surplus, go through surplus property procedure, offer to other governmental agencies and loses the asset, proceeds of sale must be used for capital outlay or non-reoccurring maintenance costs</td>
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<tr>
<td>Lease</td>
<td>Generate revenue, retains ownership of land, improvements revert to District at end of term</td>
<td>District must declare surplus, go through surplus property procedure, accept highest responsible bid, limited to 99 year lease term, proceeds of sale must be used for capital outlay or non-reoccurring maintenance costs</td>
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<tr>
<td>Lease (Long Term)</td>
<td>Generate revenue, shorter term allows District to retain property for other types of transactions at end of term</td>
<td>Limited to recreational or educational users, priority to educational agencies, limited to 5 year term unless contribution of capital improvements for park or recreation purposes by public entity or non-profits</td>
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<tr>
<td>Joint Use</td>
<td>Generate revenue, shorter term allows District to retain property for other types of transactions at end of term</td>
<td>Unspecified</td>
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# Options Analysis

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<td><strong>Exchange</strong></td>
<td>Acquire parcel better suited for other facility needs. Possibly receive some cash considerations if parcels received are worth less than the parcel District exchanges</td>
<td>Finding an exchange partner</td>
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<tr>
<td><strong>Joint Occupancy</strong></td>
<td>District receives revenue, selects the project they prefer, retain property and improvements at end of term, no requirement to declare surplus, entitlement risk transferred to developer, more flexible use of proceeds, District shares portion of the development</td>
<td>Must identify a District use for the site, limited to 66 year lease term, requires SBE approval prior to execution of agreement(s)</td>
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What is Joint Occupancy?

CA Ed. Code 17515 – 17526

- District allowed to enter into a lease with any person or entity for 66 years

- Developer constructs facilities jointly occupied by both parties

- Developer retains title to their portion of the building

- District retains title to land and District portion of the building

- District pays no rental fees for its portion of the building to the Developer

- Developer makes ground lease payments

- District may also share in profits of the project
Benefits of Using Joint Occupancy

- May generate revenue to support District programs

- Project can build facilities typically requiring General Fund dollars
  - Professional development, local District offices
  - M&O, Police substations

- Develop projects that address critical needs, social services and programs
  - Workforce Housing
  - Housing for District families who are homeless
  - SEPA Programs

- District can be proactive regarding facility needs
  - Build it where it is needed, versus only where we have space

- District retains ownership of land and improvements revert to District at end of term
Successful Joint Occupancy Projects

- 185 Units of Workforce housing, 30 – 60% of Area Median Income (AMI)
  - Sage Park - 90 Units (5.7 acres of agricultural land)
  - Selma – 66 Units (0.6 acre parking lot)
  - Norwood Learning Village – 29 Units (0.7 acre parking lot)
- 83% of Sage Park and Selma leased (128 units) to District employees
- $315,000 in revenue, and
- $65,000 in annual ground lease payments
Considerations Going Forward

- Requires proactive, forward planning and visioning effort by District departments, other than Facilities, to identify needs to be addressed

- Timing – long term process, first revenue 5+ years away
  - Began workforce housing projects in 2008

- Not bond fundable – Identify funds for program start up and initial implementation

- Requires a very intense community engagement effort
Considerations Going Forward

- Concerns about the change of use by communities and stakeholders
  - Someone will always be against the project

- Public perception District “getting into the development business”

- Typical challenges of development
  - Zoning, entitlement and permit process
  - City / County plan check along with DSA for District portion
  - Project financing
  - Market risk
  - Community opposition, potential CEQA litigation, ballot measures
  - Other stakeholder input and interest
Next Steps Should Board Decide to Pursue

- Board provide direction regarding goals and priorities
  - Maximize Revenue generation
  - Affordable housing and social programs
  - Charter use

- Identify funding to support initiative

- Form a committee to research and inform Board

- Mine our assets for sites with opportunities that align with the goals and priorities established by the Board