

An Asset Management Primer
for the
Western States Land Commissioners Association

Introduction

This paper serves as an introduction to the development of an asset management plan. The need for this paper was identified following a summer 1998 Western States Land Commissioners Association (WSLCA) Asset Management Workshop in Olympia, Washington. Attendees of that meeting concluded that state land management agencies needed a reference document describing not only the process of developing an asset management plan, but also the considerations, problems, and milestones inherent in bringing a plan from the conceptual stage to a finished, “working” document.

This paper is based to a great extent on the experiences of the Oregon Division of State Lands (Division) in developing and implementing its Asset Management Plan. It covers a ten-year period beginning in 1990, when the agency took its first step toward establishing formalized management goals and objectives.

To provide the reader of this paper with a greater understanding of a number of the considerations discussed, examples taken from Oregon’s asset management plan-writing experience are frequently inserted into the text within shaded “boxes.” Although many of these experiences will most likely not be experienced by all asset management plan writers, they may provide insights to plan authors which will help them to avoid problems encountered by Oregon’s plan development team.

What Is An Asset Management Plan?

Most people, when asked to define an asset management plan, would describe it as a written document which presents in a clear, easily understood manner, the overall long-term vision, operating philosophy and general direction to be used in managing an agency’s Trust and Non-Trust real estate assets. Upon further questioning, many of these respondents might be prompted to describe the function of such a plan, stating that its primary purpose is to ensure that both agency staff and the public clearly understand what considerations will be consistently employed whenever a decision is made concerning the acquisition, disposal, and use of publicly-owned land. From these standpoints, an asset management plan is, in many respects, an “operator’s manual” for a land management agency.

However, this description applies only to the physical product resulting from what is often a protracted process involving considerable interaction between oversight boards/commissions, agency staff, stakeholders, and the public. Therefore, in its broadest sense, an asset management plan is both the document itself and the process used to create that instrument.

Plan Development Questions

Before commencing on the development of an asset management plan, it is first necessary to have a good understanding of:

- Your need for an asset management plan and how it will be used.
- The constitutional or statutory provisions mandating your agency's goals and objectives.
- The extent and nature of your assets.
- The income generation history of the assets managed.

Plan Need

Preparing an asset management plan is a major undertaking requiring considerable forethought concerning the need for, and subsequent use of the plan. Typically, an asset management plan is written to codify the "corporate philosophy and goals of, and constitutional and statutory mandates directing an agency" into a plan of action specific to each of the types of resources it manages.

Depending on the past management practices of the agency, articulating the corporate philosophy and goals of the organization may be relatively easy or difficult. If the agency has made a concerted effort in the past to develop, for example, five-year plans, and/or its governing board or commission has been, and will likely continue to be relatively stable both in terms of membership and general philosophical direction, this task is simplified. However, in the event that an agency has not previously prepared any longer-term operating plans, and/or has been governed by a number of boards or commissions, each having a different philosophy, this task becomes more difficult.

An asset management plan must often be written with several audiences in mind. Although the principal users of the plan are most likely to be an agency's managers and staff to obtain guidance in making management decisions, the board or governing commission of the agency is likely to not only endorse the plan, but also refer to it from time to time when making asset-related decisions. Abstracted copies of the plan may also be read with interest by public officials, legislators, agency stakeholders (that is, persons holding leases, easements, or other forms of authorization to use publicly-owned land managed by the agency) and the public to understand what factors the agency will consider to make decisions.

Legal Considerations

Prior to beginning development of a plan, it is critical that the authors are familiar with the various constitutional mandates, statutory requirements, and attorney general opinions which must be followed when making any asset-related decisions. It is also critical that the authors are aware of how this legal framework has been previously employed in the decision-making process, and must be “woven” into the plan.

Inherent in the legal considerations attendant with land management is having a clear understanding of the differing management requirements for Trust and Non-Trust Land. Given the strict fiduciary responsibilities inherent in the management of Trust Land, it is important that these be clearly articulated in an asset management plan, and incorporated in all management prescriptions.

Asset Extent, Composition And Mix

Although it may seem strange to some states to mention this consideration, it is important from the very beginning of the plan writing effort that the authors have a firm grasp of the nature and extent of the assets managed by their agency. How much of the asset is in forested land or rangeland, consists of submerged and submersible land, or is urban or rural in nature is an important consideration in the plan writing process. It is further important that the plan authors also have a solid information base concerning the location and condition of these assets. Without this information, which is necessary to create a basic land classification system, it is difficult to develop, for example, management prescriptions unique to each type of resource.

The Oregon Experience

Although Oregon’s land management staff had a good idea of the location and resources contained on, and uses being made of much of the land managed by the agency, the agency had little, if any, such data on some parcels. Therefore, a key task of the asset management plan team was to compile all available information on as many parcels as possible to establish their condition and past and potential uses. One example of data the Division’s land management staff could have used at the time their study was undertaken was the number and type of unauthorized structures (such as docks, pilings, floating homes, etc.) placed on state-owned submerged and submersible land. Such information would have been helpful in developing classification-specific management prescriptions. Interestingly, the process of locating and authorizing structures on state-owned submerged and submersible land is still underway, five years after adoption of the Division’s asset management plan.

History Of Asset Revenue Generation

Although time worn, great truth exists in the old adage that it is hard to tell where you want to go if you don’t know where you have been or currently are. So also is the case with respect to developing an asset management plan. Without good, resource-specific

information concerning the historical and current performance of the assets managed by an agency, it is difficult, if not impossible, to establish either a plan or the measures to use to make decisions concerning, for example, whether to hold, acquire, or dispose of an asset.

Assembling The Planning Team

Once an agency has decided to begin undertaking an asset management plan, a core project team must be assembled. It is critical that this team consist of senior staff having not only a broad understanding of the key asset management functions of the agency, but also knowing the agency's "corporate history." Among the functions which should be included in such a core team is staff directly representing all land management functional aspects of the agency such as field operations, accounting and finance, policy and planning, etc.

However, in assembling the agency core staff team, the number of participants must be kept to a workable size. As in the case of any group, too many members can often slow, if not stop the plan development process.

In addition to this core group, it is also important to assemble one or more teams of stakeholders to involve in the planning process, particularly the development of policies and management prescriptions. These teams might consist of representative of each of the major uses of the subject land (for example mining, forestry, agriculture, etc.). It is also important to include as a part of any stakeholder teams the beneficiaries of the agency's land management activities. These might include, in the case of Oregon, representatives of the state's public school systems (which are recipients of interest generated by income derived from activities using state-owned land subject to the study), legislators, and the public at large.

The Oregon Experience

Despite the best efforts of the agency, it was difficult to maintain the continued interest of stakeholders in the progress of the asset management plan. Although interest ran high at first, particularly among some land using groups, it began to wane as seemingly endless drafts of sections of the plan were forwarded to them for reading.

As in the case of the core team, it is important to keep the number of stakeholder groups and members in each to a workable size. Although perhaps obvious, it is also critical to select members of the stakeholder team who are truly interested in the project; want to see the agency succeed in its land management efforts, and feel a vested interest in the study results. These individuals also have to be representative in their beliefs of the groups with which they are affiliated.

Retention of Consultants

A decision which must be made by the core team early in the planning process is whether to rely on consultants for assistance in developing the management plan. Because many public land management agencies do not have in-house expertise in all areas of asset management and financial performance evaluation, retaining consultants to conduct some or a portion of the requisite study(ies) can be very beneficial. In addition, if used properly, consultants can bring not only additional credibility to the plan development, but also greater objectivity.

However, weighing in on the other side of the equation is the fact that no one knows an agency, its policies and corporate history as well as its staff members. For a consultant to gain the necessary historical information and perspective to assist constructively in the preparation of an asset management plan will take a considerable amount of time, generally at the expense of the agency.

The Oregon Experience

Prior to beginning the actual asset management planning process, the Division decided that the use of consultants was necessary in the preparation of an asset management plan. Therefore, before commencing plan development, the Division requested and received Land Board and legislative approval for an asset management plan development budget package in the amount of \$178,300 to be used *“to contract with private and public sources to compile resource inventories and to coordinate the inventory compilation and provide management oversight during development of the state asset management plan...”*

Once this decision and the approval of funding had been made, the next step was to prepare a request for proposals (RFP) detailing the scope of the work. This document was prepared by the core team and, upon completion, was sent to a number of consultants. Of all of the consultants sent the RFP, only five responded. Four of these respondents were then invited to make presentations to an evaluation team composed of the Division’s core team, Land Board assistants, and other state agency staff.

If an agency decides to use the services of one or more consultants, it is extremely important that the agency know not only exactly what product(s) is/are needed and in what format(s), but also should be able to articulate that need clearly in an RFP. It is also vital that the RFP clearly state:

- The date that proposals in response to the RFP must be received by the core team.
- The method that will be used by the core team to evaluate proposals.
- The not-to-exceed budget available.
- The expected timeline for each of the deliverables.
- How the deliverables will be used and integrated into the management plan.
- The types of information that are already readily available at the agency and in what format and level of detail for use by the consultant.

- The key contact point with the agency.

In selecting a consultant, the first critical step is to ensure that the RFP is sent to consultants who have the ability to conduct the requisite study(ies). To do this requires that the agency's core team undertake an initial investigation to identify those firms with experience in asset management plan development. Sources of such information include, but are not limited to other states, organizations, and companies. By doing this homework early, the agency can gain a greater assurance that it will be sending its RFP to consultants who have already been pre-identified by some party as qualified to respond.

Prior to receipt by the agency of responses to the RFP, it is important that the agency's core team decide how it will evaluate those responses. Will a separate team of persons from the agency or other organizations be used? Will stakeholders be asked to assist in the selection process? Or, will this task fall on the core team? These are important decisions that must be made by the core team. And, of course, it is critical that the core team also develop a matrix or some other type of screening/grading process to use to evaluate and rank each of the responses received to ensure that each is fairly reviewed.

Once the proposal review process is complete, the members of the team undertaking this effort must decide whether further information is required from any or all of the consultants preparing the proposals. At the same time, the review team members must also determine how many of the consultants submitting proposals will be asked to give oral presentations expanding upon their proposals to the core team.

The Oregon Experience

As indicated above, the Oregon asset management core team invited four consultants to give presentations expanding upon aspects of their proposals. Interestingly, this phase of the consultant evaluation process greatly helped the team to decide which of the consultants it wanted to retain. The style and tone of the presentations varied among the consultants so greatly (ranging from unprepared to arrogant and overbearing) that it was very easy for the core team to determine which consultant was the "best fit" to meet the needs of the agency.

Asset Plan Building Blocks

To develop an asset management plan, three major building blocks must be developed:

- General and resource-specific policies and management prescriptions;
- A land classification system; and
- Economic and financial analysis and recommendations.

Identification/Development Of Policies And Management Prescriptions

Regardless of whether a consultant is retained, the first step in the process of preparing an asset management plan is to identify and evaluate the effectiveness of the basic management policies which have guided the agency in the past. At some agencies, these

policies may be clearly articulated as written statements or guidelines, often contained in board/commission statements or in agency operations manuals. Conversely, other agencies may not have codified some or all of their operating policies in writing. Instead, the policies may be part of an undocumented, yet very real “corporate philosophy” developed over time and passed verbally from employee to employee. Policies, too, may be directed to management of a specific type of resource, or general to all resources. Regardless of which form the policies take, it is important for the core team and/or its consultants to identify and analyze these management tenants to determine if they are valid approaches meriting continued adherence.

In instances when formal asset management policies do not exist, or existing ones are found to be inadequate, the core team must develop the requisite new management prescriptions. To do this, the core team and/or its consultant(s) must develop a number of basic assumptions concerning the environment(s) in which the agency will operate in the future. Once developed, these assumptions will serve as the basis for the development of recommended management policies.

Typically, the assumptions are of two types: internal and external. Internal assumptions relate to the historical and projected future operating environment of the agency. These assumptions are developed by answering questions such as:

- What is the extent and nature of the resource base managed by the agency? Is this likely to change in the future?
- Is the goal of the governing board or commission to increase the overall value of the agency’s holdings?
- What has been the past position of the agency’s governing board toward land trades, sales, and acquisitions? Is this stance likely to continue?
- What are the basic legal and other directives governing the agency’s actions? Are changes foreseen which could alter this “operating environment?”
- Should the agency promote development of its holdings? Further, should it participate financially in supporting such ventures?
- Are there minimum target rates of return that the agency should expect from developments on its holdings?

External assumptions concern factors not under the control of the agency or its board/commission, but which have, and will likely impact the agency. Among the questions which lead to generating these assumptions are:

- What has been, and will likely be population growth in the state? Will this growth occur primarily in areas where an agency manages assets?
- What have the prices been for products produced from land managed by the agency? What is the likely future trend in these prices?
- Are new land use regulatory laws likely to impact the use of assets managed by the agency? What might these changes do to impact agency land management activities?

Once the core team has developed a set of assumptions based on the answers to these and other similar questions, it can begin to develop the policies that will serve as the general, and resource-specific management prescriptions supporting the asset management plan. However, before proceeding to the policy development stage, it is important that these tenants be reviewed and approved by the agency's governing board/commission. As a further check, the assumptions should also be discussed with the stakeholders team to ensure "buy-off" of these policy-supporting premises.

Evaluation And Classification of the Asset Base

The second major component of an asset management plan is the land classification system. Development of this system and the assignment to it of parcels or resources managed by the agency may either be relatively easy, or entail a considerable amount of work depending on the amount and quality of information an agency has about each of its holdings.

Needless to say, it may be difficult, if not impossible, to develop either an asset management plan or land classification system without a good understanding of the asset base. Although an agency may have a detailed legal description of every parcel it manages readily available, a good likelihood exists that few, if any, agency staff could locate a number of the parcels on the ground, much less provide a description of their physical attributes. This is particularly true if the parcels occur in remote, rural or undeveloped areas without roads or other readily usable benchmarks. As a consequence, it is highly possible that very little descriptive information may exist "in-house" about of a number of the parcels managed by an agency.

Therefore, a key step in the conduct of an asset management plan is to develop a good database concerning the nature and financial performance of the parcels under the agency's management if one is not already available.

To develop such a database is not easy. Among the desired information concerning each property would be:

- Size in acres.
- Degree of state ownership (in fee or split estate).
- Past and present use(s); possible other uses.
- Revenue generation history.
- Unique attributes such as the presence of threatened and endangered species or historic and cultural resources.
- Proximity to urbanized areas and infrastructure (roads, power, water, natural gas, etc.).
- Approximate value (assessed, appraised, other).

With this information, a land classification system can be developed, and the various holdings can be aggregated for the purposes of classification into broad categories thereby facilitating greater analysis.

Economic and Financial Analysis

The third major component of an asset management plan consists of a financial performance analysis. In this analysis, historical revenue streams from major types of resources, or specific types of properties within a given resource classification are compared to the costs of administering the subject holdings. By conducting such an analysis, the market rate of return for various assets managed by the agency can be determined. This information then can be examined in light of the assumptions and policies developed by the core team.

It should be noted that many agencies may not have readily available records which will allow identification of historical revenue streams from individual properties. Instead, the reports generated by agency accounting departments often simply aggregate revenues by broad classes of holdings, for example, sand and gravel revenue, timber revenue, etc. Consequently, a great amount of time and effort may be required to “unravel” revenue streams to reflect income from individual properties.

At the same time that an asset database is being developed, a similar effort should be ongoing to develop a management cost database. This is also typically a difficult process because the readily available financial records of many agencies do not allow easy identification of the costs of property management on an individual property-specific basis. Instead, costs may be aggregated on an activity (for example, “land management”) or resource-type (for example, forest land) basis.

The Oregon Experience

Surprisingly, when the Oregon asset management core team started its development effort, one of the greatest challenges it encountered was to assemble sufficient historical financial data on the various land resources in a format usable for making comparisons and determining changes over time. Past data often was incomplete or conflicted with other sources of information for the same resource. Therefore, an inordinate amount of time had to be initially spent by Division of State Lands’ staff assembling and “testing” financial data to ensure that it was reliable and was in a usable format.

Without some level of detailed breakdown of the revenue derived from each major category of land, it will not be possible to develop a profile of the return on asset value from revenue producing activities -- a key factor in determining whether a specific asset or group of assets should continue to be held, increased, or disposed of through trade or sale.

Evaluation Of The Asset Base

With data available concerning the:

- Qualitative and quantitative aspects of the asset base;

- Basic assumptions and policy prescriptions which have been, and/or are recommended to serve as agency guidelines in the future; and
 - Past financial performance of various assets,
- the core team and its consultants can begin to evaluate the asset base held by the agency, and to make recommendations concerning future land management activities.

The Oregon Experience

When Oregon's asset management plan core completed assembling the above information, it retained consultants specialized in each resource area (for example, forestry, mining, etc.). The principal task assigned to these consultants was to evaluate the data in light of industry standards and practices to determine not only the value of the resource as a revenue producing asset, but also what, if any, management policies, rates of return, etc. should be specially applied to the resource to enhance its value. These consultants were also directed to evaluate, as well, the policies and practices of other public land management agencies to determine their applicability to the management of Oregon's asset base.

Each asset is then examined from the standpoint of its cost to manage; intensity of required management effort; improvements in-place or required; return on asset value; presence of unique cultural, historical, and other resources; and ultimately, whether it, and similar properties or classes of properties should be held or disposed of by the agency.

Based on these examinations, the next step is for the core team to develop recommendations specific to the management of each property and/or class of properties, and incorporate the prescriptions into the asset management plan draft.

Plan Acceptance, Adoption And Implementation

A key component in the development of an asset management plan is keeping the agency's governing board/commission, agency staff, stakeholders, and general public involved in its development. Unless these groups are kept informed of the progress being made on the plan, and periodically asked their opinions at critical junctures in the development process, they will not feel any linkage to, and consequently will not "buy into" to the product.

This is also true with regard to use of the plan by agency staff. Regardless of the quality and comprehensiveness of the plan, it will have little utility unless it becomes a living document routinely used by staff in making land use decisions. A key element to achieving this status is for agency staff to fully understand the plan contents and rationale behind the management prescriptions – which will occur if the staff has been involved in the plan's development. Additionally, to give the plan legitimacy, it also must in some way be endorsed or adopted by the governing board/commission of the agency.

Upon plan completion and adoption, it may be useful for the core team to develop abstracted versions of the plan for public distribution and use by agency staff. This

version should also be posted on the agency's website and the key points of the document highlighted.

It is important to remember that despite the thoroughness with which a plan was prepared, it is prudent to incorporate a requirement in the plan that it be periodically reviewed by the governing board/commission and staff of the agency. Such a review is necessary to ensure that the plan remain a viable policy instrument, truly reflective of the philosophical orientation of the agency's governing board/commission, and changes in the economic and legal environment.

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