

CITY OF LOS ANGELES

CALIFORNIA



ERIC GARCETTI
MAYOR

JAN PERRY
GENERAL MANAGER

ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

March 27, 2015

Councilmember Curren Price, Chair
Economic Development Committee
200 N. Spring Street, Room 420

Councilmember Paul Krekorian, Chair
Budget and Finance Committee
200 N. Spring Street, Room 435

Re: Council Files: 13-1090, 14-0600-S79, 14-0600-S80, 14-0600-S81, 14-0600-S82

CITYWIDE ECONOMIC DEVELOPMENT UPDATE

SUMMARY

This report provides a summary and update on EWDD's efforts to create a citywide economic development plan, establish the economic development functions in the department, and implement its role in all aspects of the City's economic development strategy. Prior to entering into budget discussions, the department also wanted to address outstanding motions adopted in last fiscal year's budget, and re-emphasize a number of previously presented recommendations that will develop a more robust approach to economic development in the City and open the door for new streams of revenue for economic investment. EWDD requests legislative action on these outstanding items before the commencement of FY 2015-16.

BACKGROUND

Since its creation in April 2013, the Economic and Workforce Development Department has worked to craft a citywide effort to support job creation, business incubation, economic renewal and neighborhood vitality in the City of Los Angeles. The impact of incubating this department in the midst of the biggest economic downturn in the past half century has certainly impacted the ability of the City to fund, and the Department to achieve, its full potential.

With the City focused on rebuilding its reserves and regaining the ability to provide increased basic services for Angelenos, little room has been left in the annual budget

for the funding necessary to reach the objectives of a Citywide economic growth plan. This, however, has not prevented EWDD from developing and presenting such a plan while at the same time continuing to exercise its available human capital and grant dollars to triage the City's economic priorities and lay the foundation for a robust economic development delivery system.

Citywide Economic Development Plan

In response to Council File 13-1090 (Motion Huizar-Cedillo), EWDD submitted three reports to the Economic Development Committee. The final two reports, submitted in April and May of 2014 (see Attachment A), summarized the state of the City's economy, identified important inhibitors to the City's long-term economic health, and proposed a work plan that would target these very specific issues at both a micro- and macro-level. Highlights of the plan as presented in the April 7, 2014 and May 16, 2014 reports include the following:

- Measure success in direct correlation to an investment's positive impact on the City's tax base, improved employment opportunities, business expansion and quality of life.
- Focus market investment on small businesses, micro-enterprises, and neighborhood development.
- Innovate by supporting emerging markets, propelling growth sectors to move into and pull from disadvantaged communities, and creating traction for new business models and ideas.
- Capitalize on culture, cultural diversity and improving amenities as a means to achieve economic revitalization and resilience.
- Create a platform for economic development through infrastructure projects that can transform entire commercial districts or sectors.
- Adapt and redevelop underutilized public assets for economic development purposes.

The economic development plan as presented would require new resources, EWDD also recommended multiple budget allocation options to fund aggregate levels of implementation. The Economic Development Committee heard all three reports but left the items under consideration without recommendation and requested a joint CLA/CAO report be issued on the potential use of "Boomerang Funds" for affordable housing and economic development objectives in the City. The status of the joint CLA/CAO report is pending.

Additional EWDD Economic Development Efforts

EWDD continues to move forward to develop and achieve the hierarchical economic and community development goals embodied in its earlier reports. To date EWDD has achieved incremental progress through efforts such as internally restructuring its Economic Development Division to match the proposed areas of focus including: Market Investments and Innovation, Property Development and Disposition, and Economic Strategy. EWDD is also addressing issues in its existing portfolio of projects, and creating internal checks and balances on par with other public lenders and best practices. Additionally, EWDD continues to work collaboratively with its fellow departments, CLA, CAO, Council and Mayor's office to begin evaluating City property

for reuse, capturing CRA/LA bond funding for new projects, and evaluating opportunities for creative financing. EWDD is also reaching out to Business Improvement Districts, industry-specific organizations, and the film community to identify their issues and collaborate on solutions. The department is utilizing CDBG funding for business incubation; applying for project-specific and planning grants; developing community-specific economic development plans; and through the BusinessSource Centers, providing technical support and assistance to businesses.

FY 2014-15 Budget Report Backs to the Economic Development Committee

Pursuant to the adoption of the 2014-15 Budget, EWDD was requested to report back to the Economic Development Committee on the following: (CF 14-0600-S79), development by EWDD of a citywide economic development plan, (CF14-0600-S80 and CF14-0600-S81), with information on how the department might address economic development in specific communities, and (CF14-0600-S82), review of creative opportunities which might be available for financing economic development efforts. Before council committees begin to delve deeply into budget issues for 2015-2016, EWDD wanted to ensure that this pre-existing slate of issues was asked and answered in a meaningful way and are broadly covered here.

The architecture behind the City's economic development plan was based on an analysis of current economic indicators and drivers, defining goals and objectives, and distinguishing responsibilities and resources. These variables generated implementation strategies and identified specific programs and projects that are scaled to the size of existing and future resources.

The May 2014 report from EWDD (CF 13-1090) recommends utilizing a combination of approaches with an emphasis placed on business investment, innovation and infrastructure. The program emphasis will reflect the size of funds available for expenditure. If limited funding is available, the report suggests a program weighted on infrastructure investment as these projects can be targeted to regional job hubs and typically have a broader geographic impact. As more funds are added, the programs can diversify and reach micro- and community-specific issues.

The City's role in economic development is to energize communities and increase quality of life. Public funds are invested strategically to spur private investment; support growth in emerging markets, sectors and neighborhoods; and develop infrastructure that supports the City's economic engines. In general, there is a reasonable argument to be made for strategic economic development investments throughout our City. However, with limited funding, the scale of investment should be weighted to the City's most economically disadvantaged communities. Ensuring equity in services and engagement throughout the City does not equate to a cookie-cutter approach and EWDD would recommend programmatic solutions be adaptable and unique.

The flow of funds for economic development since the dissolution of redevelopment has been extremely limited, spurring interest in identifying creative sources of revenue outside of general fund for projects and programs. EWDD competes regularly for grant funds, which are typically targeted to specific projects, planning work or piloting new program concepts. The Department of Commerce offers a variety of grants and loan products but requires grantees to have an active Comprehensive Economic Development Strategy (CEDS). Since the City's CEDS has expired, EWDD is actively

seeking funding to assist in covering the cost of putting together the strategy, with the intent to submit a new CEDS. Additionally, EWDD has looked at expanding its bond program and hopes to utilize Enhanced Infrastructure Finance Districts as opportunities to raise funds for specific projects of import to the City and create a stream of revenue that can be used more flexibly for administration, program development and investment. EWDD will only pursue these efforts with Council and Mayor support.

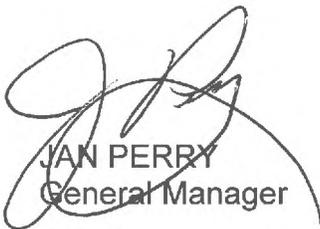
NEXT STEPS

EWDD recommends that the City Council and Mayor adopt the economic development plan recommendations presented in the EWDD reports dated April 7, 2014 and May 16, 2014 presented under CF13-1090, and establish a normalized baseline of funding for economic development in the City of Los Angeles as part of the City's 2015-2016 Fiscal Year Budget. EWDD also requests support for new staff positions and related costs in the 2015-2016 Fiscal Year.

EWDD will continue to solicit grants and other in-kind resources to move forward on efforts to develop new streams of revenue for economic development projects in the City. EWDD will also, with approval of Mayor and Council, identify funding for and actively pursue efforts to establish a municipally-run EB-5 Regional Center, draft and submit a new Comprehensive Economic Development Strategy to the Department of Commerce on behalf of the City of Los Angeles, and continue to pursue the concept of Enhanced Infrastructure Finance Districts.

CONCLUSION

EWDD continues to establish the necessary foundation to increase economic growth in Los Angeles. The department looks forward to growing incrementally and working in concert with the Council and Mayor to align its priorities and projects using best practices for job generation, business growth, and the development of vibrant communities in Los Angeles.



JAN PERRY
General Manager

JP:JS:mdc

Attachment A: April 7, 2014 and May 16, 2014 EWDD Reports (CF 13-1090)

cc: Councilmember Mitchell Englander
Councilmember Paul Koretz
Councilmember Bob Blumenfield
Ana Guerrero, Chief of Staff, Office of the Mayor
Kelli Bernard, Deputy Mayor
Rick Cole, Deputy Mayor

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1200 W. 7TH STREET
LOS ANGELES, CA 90017

Date: 4/7/14

Submitted in Econ. Dev. Committee

Council File No: 13-1090

Item No.: 9

~~Report~~ Report from the
EWDD

Council File: 13-1090

Council District Nos:

Contact Person & Phone

Kathy Godfrey

(213) 744-9023

April 7, 2014

Economic Development Committee
Los Angeles City Council
c/o Richard Williams
City Clerk
Room 395, City Hall

TRANSMITTAL: REPORT BACK TO THE ECONOMIC DEVELOPMENT COMMITTEE OF THE STATUS AND ACCOUNTING OF PROJECTED REVENUE TO THE CITY OF LOS ANGELES FROM THE FORMER COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES (CRA/LA)

BACKGROUND:

Basis for Program Development Strategy

The City of Los Angeles is one of the largest municipal economies in the country, and one of the largest overall economies in the world. The city can boast of its broad sector of emerging and established markets; one of the most active Ports in the world; a strong connection to the markets and businesses in Latin America and the Pacific Rim; and a robust tourism industry.

Overall, the city has not seen job growth in over two decades and has not kept up with the state or national economic recovery in this post-recession era. To reverse this trend, it is vital that the city and the Economic and Workforce Development Department (EWDD) actively focus this coming Fiscal Year on developing strategies to create a real jobs/housing balance that will brand Los Angeles as a 21st Century City fostering innovation, sustainability, and a better quality of life.

To develop an effective economic development program, the city must establish a baseline of funding for these efforts by utilizing the Boomerang Funds returning to the city as the result of the dissolution of the CRA. . Even as the city continues to face ongoing budget challenges, in order to deliver a real economic development strategy for the city, it is essential that these funds be set aside in percentages similar to those established under

redevelopment: 20 percent for affordable housing programs and 80 percent for economic development and public infrastructure programs. It is estimated that for the foreseeable future, funding from the Boomerang Funds would equate to approximately \$30 million a year. It is EWDD's goal to ensure that every dollar received from these funds will be matched with grants and private investment to guarantee leveraged investment and produce results that generate new revenue for the city over time.

Over the next year, EWDD will be organizing the city's consolidated economic development effort and establishing the groundwork necessary to grow this program. In order to meet this challenge, the EWDD will need to supplement its existing staffing and acquire a baseline of city funding it can rely on for programmatic and project development. The first year will require hiring a **small** but effective staff that will be responsible for meeting the following objectives:

1. Establish a Citywide Implementation Plan for Economic Development with a 5-year horizon beginning July 1, 2014.
2. Support and build capacity for any supplemental nonprofit that will work in concert with EWDD and city departments on implementation.
3. Integrate various city staff and departments into the economic development work of the EWDD so that citywide economic development begins to operate in a more cohesive and comprehensive manner.
4. Work to assist with Asset Management functions including repositioning/repurposing city properties and creating plans to economically develop properties the city receives from the CRA as part of the Dissolution Process.
5. Initiate sector-based study and best practices to validate and establish economic development goals for the city, and set up programs that will assist with sector growth.
6. Establish and deliver on strategies to improve infrastructure in our neighborhoods utilizing infrastructure bond proceeds to ensure sustained growth, reliable delivery of services, and the removal of transportation and Goods/Movement barriers.
7. Create and implement a work plan for marketing the city to businesses and promoting various sectors within the city.
8. Review, modify and initiate/enhance business assistance programs and strategic development investment in the city.
9. Champion and work with city departments to implement major economic initiatives including but not limited to Transit Oriented Development, Great Streets, Convention Center expansion, etc.
10. Work with the Mayor and Council Offices to develop geographic work programs that will address specific economic and development issues and opportunities in the various neighborhoods throughout the city.

Program Detail

Program development and fund expenditures would be focused on the following areas:

1. Asset Management and Real Estate
2. Capital Projects (Transportation and Infrastructure)
3. Economic Strategy and Marketing
4. Market Investment and Innovation

This program will be focused on managing, acquiring, disposing and leasing city-owned property assets received from the redevelopment agency and any other sites owned by the city with Transit Oriented District (TOD) or strategic potential to meet the City's economic development objectives and maximize a return on assets for the City. EWDD will work closely with the Housing and Community Investment Department (HCID) to focus on properties that are or can be positioned to create jobs, commercial and industrial growth and mixed-use development.

EWDD, in accordance with the ordinance that established the department, will work with the Mayor's Office, CAO and CLA, council offices and the non-profit entity to develop these properties. Overall project responsibilities would include analyzing property potential; addressing any remediation, relocation or land preparation needed to prepare the property for reuse; developing and overseeing RFP process for selecting developers or businesses to lease or purchase the properties; drafting all lease and development agreements for private use; and managing and maintaining all lease and development agreements once executed.

Examples of Immediate Projects to be undertaken:

- Convention Center Adjacent Property. Develop and implement plan for reuse of property to better serve convention center and LA Live entertainment center activities.
- Properties located near Metro planned or existing Metro major station stops. Analyze current uses and develop plan for repositioning selected properties in concert with public partners like Metro, the Housing and Community Investment Department and potential private developers or commercial tenants.
- CRA/LA-DLA Assets. Work closely with HCID on developing disposition plans for Future Development Assets and properties that are well suited for mixed-use or commercial/industrial development in the former redevelopment project areas.

Capital Projects

By utilizing Boomerang Funds, EWDD could create physical infrastructure, facilities and amenities that strengthen the City's economic position by investing in streetscape and infrastructure projects in the City's commercial and industrial hubs and project manage the creation or rehabilitation of sports and cultural facilities, markets, buildings, and amenities

that create and enhance the City's competitive edge.

EWDD will focus on those projects that are particularly complex, involve multiple grant sources, include private partnerships, and/or are the focus of a larger economic development strategy. EWDD will work to establish the financing for projects, managing the design and construction, and setting up long-term/short-term maintenance agreements.

Examples of Immediate Projects to be undertaken:

- **Focus on Tourism Infrastructure.** This would include improving infrastructure in areas the City has designated for cultural, entertainment or sports-related uses but would also include developing emerging urban tourism wherein tourists are interested in specific experiences (eco, food, etc.). Projects could include upgrades to Chinatown Plaza, Downtown Streetcar, and related streetcar projects in other neighborhoods, My Figueroa, Fashion District way-finding, parking and walkability improvements, etc.
- **High Speed Internet and Technology.** Focus on efforts to create more public Wi-Fi hotspots and develop plans for improving high-speed access to lower income areas and commercial hubs.
- **Great Streets.** Develop infrastructure plans for neighborhoods designated under the Great Streets Program and implement a streetscape, signage and branding program. As part of the Dissolution Process, the city is working to ensure that CRA bond proceeds return to the city for public infrastructure uses within CRA project areas. These resources will help fund infrastructure efforts.
- **Goods/Movement.** Develop infrastructure along key transit corridors for Goods Movement, including the Alameda Corridor, and reinforcing streets for heavy weight trucks in Wilmington.

Economic Strategy

Develop focused plans for sector and job growth throughout the City of Los Angeles and provide regular reports to the City Council, Mayor's office and other relevant departments. Assist in developing policies and ordinances that will further the City's economic development agenda. Work with various Business Improvement Districts (BID), L.A. Inc., chambers of commerce and business associations to promote Los Angeles' economic development opportunities through media and conference efforts to attract and retain corporate investment. Formulate an economic strategy to look at the City from both a micro and macro level to determine how to build on neighborhood and citywide assets as well as fill in economic gaps. EWDD would also utilize the most current information of Los Angeles' diverse real estate market to assist businesses and developers in finding best-suited locations within the City limits for their investments.

Examples of Immediate Projects for consideration:

Made in L.A. Design - market a website that creates a database of manufacturers providing garment-related production services. Market the website locally and internationally to position Los Angeles as a uniquely qualified City for fashion production, design and distribution. Create materials marketing Los Angeles and specific sites for development.

Create a "road show" for industry trade shows and business and educational conferences.

- **Real Estate Advisory Services.** Continue to promote use of Locate LA with developers and brokers; work with local business and chamber organizations to assist specific businesses wanting to locate in Los Angeles to help them find a site and provide public financing options through various City and/or state related programs.
- **Sector Analysis.** Develop analysis of various commercial and industrial sectors; create investment strategies and Strategic Initiatives (e.g. Cleantech, Biotech) as well as geographic-oriented development visions (Crenshaw Corridor, Central Avenue Corridor, San Pedro Arts District).
- **Technical Seminars.** Provide technical seminars focused on topics such as expanding local business export capacity, etc.
- **BID Collaboration.** Work with BIDs throughout the City to encourage an economic growth agenda. Establish and nurture BIDs as partners of the City in maintaining public improvements and safety. Also, assist in developing Assessment Areas to help with maintenance of out-of-the-box public improvements.
- **Transportation and Food Access.** Implement recommendations for improved access to healthy food through the creation of policies and advocacy for modifications to public transit systems.
- **Guide to local communities in Los Angeles.** Complete data gathering and website design/launch for a guide to highlight eating, site-seeing and exploring opportunities for all Los Angeles neighborhoods. Coordinate this effort with Experience LA and Council Offices and ensure that other traditionally "less explored" communities like the south and east Los Angeles and San Fernando Valley communities are fully represented.

Market Investment and Innovation

Provide funding through public investments for various real estate development, job creation and economic development opportunities. In addition, EWDD could leverage Boomerang Funds by combining them with bonds, low-interest loans, New Market Tax Credits, refunds of city sales, utility user, property and business license taxes, and service-repayment loans for business retention and creation purposes.

Some of these loan and bond programs are already active in the city and would be consolidated under the Los Angeles Economic Development Corporation (EDC). EWDD will also provide analysis to guide potential public investments in commercial, mixed use or industrial ventures in the City of Los Angeles.

EWDD will evaluate requests for public assistance and underwrite and coordinate an investment strategy with city Departments, Council and Mayor's office. Projects would be organized into two divisions, one that works on small business or micro-enterprise loan

programs and the other for larger investments to establish new businesses and help

existing businesses expand. The larger loans would typically focus on businesses or projects with more than 20 employees, while the smaller loans would focus on façade rehabilitations and capital equipment investments for businesses with under 20 employees.

Examples of Immediate Projects to be undertaken:

- **Create Managed Pipeline.** Establish a prioritized pipeline of projects and analyze for public funding; develop a community benefits package in coordination with city leadership; develop and utilize project labor agreements; and assist in leveraging any other available resources. Projects should be focused on regional impact as well as the opportunities the projects would have to spark innovation. Projects should also create connectivity to other City investments and ensure that the city's investments are tied to job creation and training with the focus on living wage employment opportunities for our workforce program participants.
- **Façade Program.** Continue façade programs in Great Streets neighborhoods that provide exterior and interior upgrades to assist local retail efforts.
- **New Market Tax Credit.** Coordinate investments with Los Angeles Development Fund (LADF).
- **Industrial Incentive Program and expansion of PACE Program.** Provide technical support, loans and bonds to manufacturing and non-manufacturing industrial businesses for investment in building rehabilitation, remediation, capital equipment purchases and public improvements.
- **Incubators.** Assist in funding business incubation efforts, whether through innovative program or capital build out of incubation centers.

UPDATE ON FISCAL YEAR 2014-2015 EWDD BUDGET REQUESTS:

On February 20th EWDD met with the Mayor's Office and the CAO and subsequently submitted a revised budget request for fiscal year 2014-2015 that provides a transitional approach to building the capacity of the department to assume economic development related projects. These include the following:

1. Delay the transfer of the BID program to EWDD, and instead develop an MOU with the City Clerk's Office to provide marketing of the BID program to businesses through EWDD's nine (9) Business Source centers. The centers are located throughout the city and offer a wide range of resources to businesses and individuals. Delay of the transfer may save EWDD \$402,485 in BID related general administrative expenses.
2. Revise the number of new positions requested for the Lending Unit in the Economic Development Division from six (6) to three (3) and reducing the amount requested from \$674,271 to \$518,829 for six (6) months for the following positions:
 - a. 1 Industrial Commercial Finance Officer II

- b. 2 Management Analyst IIs
3. Revise the number of positions requested for Asset Management from fourteen (14) to six (6) and reducing the funding amount from \$1.8 million to \$553,709 for six (6) months to include the positions listed below:
 - a. 1 Senior Project Coordinator
 - b. 1 Real Estate Officer II
 - c. 1 Environmental Specialist I
 - d. 1 Management Analyst II
 - e. 2 Senior Project Assistants

We also anticipate having an Assistant General Manager for Economic Development in place by May 2014 and will begin moving forward with expanding functions based on the anticipated return of CRA properties.

In the interim, we are awaiting the strategy regarding the Economic Development Non-profit. A new plan is being reconsidered, and going forward the EWDD may assume significant portions of its functions.

4. In light of the Mayor's Executive Directive on cyber security, EWDD has submitted a new request for one (1) new Systems Programmer II position required for the realignment of EWDD's computer network security with new, cyber security requirements.

Our approach is proactive and includes the submission of requests for funds and positions through the reprogramming of CDBG monies, the FSR and fiscal year 2014-2015 budget processes to strengthen department operations and infrastructure, and position the department to assume proposed roles and responsibilities. The remaining requests will be submitted during the 2015-2016 budget process, with additional requests pending as the role of the department evolves.

BOOMERANG FUNDS

Due to the dissolution of the former Community Redevelopment Agency (CRA), the city has received \$121.7 million in Ex-CRA tax increment revenues (General Fund monies) since June 2012. The Office of the County Auditor Controller (CAC) estimates the City's June 2014 Ex-CRA tax increment payment to be \$26.3 million, which would bring the total amount to \$148 million.

The CAC collects the Ex-CRA tax increment monies and then deducts, among other things, the County's administrative fees, pass-through payments to the affected taxing entities (ATEs), such as the City, County, School District, Community College District for project areas, and the amount approved under the ROPS for the CRA/LA DLA. The remainder is distributed to the ATEs including the City.

The redevelopment dissolution law created a new administrative process whereby all

The redevelopment dissolution law created a new administrative process whereby all proposed expenditures by the CRA/LA-DLA must be listed on a Recognized Obligation Payment Schedule (ROPS), a six-month expenditure plan, and approved by CRA/LA-DLA's Governing Board, Oversight Board and the State Department of Finance (DOF) which possesses final authority.

To date, the CRA/LA-DLA and DOF have approved six ROPS which are funded with the Ex-CRA tax increment revenues. The City has received its share of these revenues from five ROPS. For the sixth ROPS the Ex-CRA tax increment payment is expected June 2014. The redevelopment dissolution law also required the CRA/LA DLA to undergo two due diligence reviews (DDR): a) Low and Moderate Income Housing Fund (LMIHF) and (b) Other Funds and Accounts (OFA). Both DDR reviews have been completed and the City has received its share of these funds.

Below is a breakdown by fund, amount and revenue time period for the \$121.7 million in Ex-CRA tax increment monies:

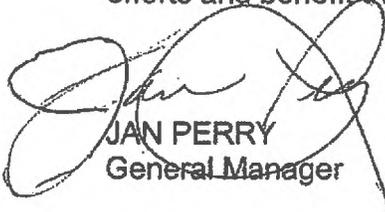
Fund	Amount (millions)	Revenue Time Period
ROPS 1	\$17.0	1/1/12-6/30/12
ROPS 2	\$23.0	7/1/12-12/31/12
ROPS 3	\$16.8	1/1/13-6/30/13
ROPS 13-14A	\$15.3	7/1/13-12/31/13
ROPS 13-14B	\$20.3	1/1/14-6/30/14
DDR - OFA	\$19.9	N/A
DDR - LMIHF	\$ 9.4	N/A
	Total-\$121.7	

CONCLUSION

Building the Economic Development structure as described will require a commitment of investment to achieve the vital and much needed economic goals for the city. Policies adopted should also be consistent with the goals and objectives laid out in the Consolidated Plan and how the city has defined the use of Federal resources for housing and economic development.

Establishing priorities for this work will depend on the decisions of policy makers, as well as the opportunities presented as we work our way through the CRA Dissolution process and budget challenges. Finally, by the strategic and thoughtful use of set aside Boomerang Funds, and following the economic development strategy developed by EWDD, the Mayor's office, Council Offices, CAO and CLA, Los Angeles can work to impact the negative job growth that has been so detrimental to the City and its diverse and numerous stakeholders.

It is understood that the development and investment community want certainty in their negotiations and agreements with the city. It is therefore vital that the city provide its loan programs, business service and incentive programs, development opportunities and resources in a manner that is consistent, fair and reliable. This is where the strategic development and adoption of strong policies having to do with the allocation of economic and workforce development resources will provide the framework for the city's development efforts and benefit those that want to do business with the city.



JAN PERRY
General Manager

JP:kg

cc: Councilmember Price

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ECONOMIC AND WORKFORCE
DEVELOPMENT DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

May 16, 2014

Council File: 13-1090
Council District Nos:
Contact Person and Phone:
Kathy Godfrey, (213) 744-9023
Jenny Scanlin, (213) 744-9723

Economic Development Committee
Los Angeles City Council
c/o Richard Williams
City Clerk
Room 395 City Hall

COMMITTEE TRANSMITTAL: REPORT BACK TO THE ECONOMIC DEVELOPMENT COMMITTEE REGARDING A CITYWIDE STRATEGIC PLAN FOR ECONOMIC DEVELOPMENT AND AN INVESTMENT FUND MODEL FOR CITYWIDE ECONOMIC DEVELOPMENT PROJECTS

SUMMARY

Prior to the dissolution of redevelopment agencies in California on January 31, 2012, the City of Los Angeles received over \$200 million annually through the former Community Redevelopment Agency of Los Angeles (CRA/LA) in new tax increment revenue. These funds were allocated by the CRA/LA to affordable housing, infrastructure and economic development projects in economically depressed parts of the City. After the dissolution of redevelopment, the tax increment once received by the CRA/LA is now allocated to its successor agency for enforceable obligations with any balance remaining apportioned to Affected Taxing Entities, such as the City, County, and School District. The former redevelopment agency funds returning to each taxing district have been termed "Boomerang Funds." The City of Los Angeles' share equates to approximately 28% of the property tax increment available, determined based on an allocation formula of the 1% property tax by the State law. While other cities and counties in California as early as 2012 set-aside all or portions of the tax increment revenue they received from the dissolution of their respective redevelopment agencies to continue the investments and goals of those former agencies, the City of Los Angeles has not. To date, the City has received over \$92 million in Boomerang Funds, yet none of this revenue has been utilized for affordable housing or economic development, instead being absorbed into the General Fund.

As a matter of policy, the city should begin to prioritize, memorialize and set aside the Boomerang Funds as a permanent source of funding for economic development and associated affordable housing efforts in Los Angeles in order to reverse historic trends on job growth, create a baseline of housing and amenities that attracts, retains and assists businesses and households, and develop the infrastructure necessary to ensure Los Angeles' position as a competitive global city of the 21st Century. For these reasons, it is strongly recommended that the City act on the following recommendations to dedicate the City's future receipt of Boomerang Funds as a permanent source of funding for the Economic Development Investment Fund and Affordable Housing Trust Fund.

RECOMMENDATIONS

The General Manager of the Economic and Workforce Development Department (EWDD) respectfully requests that the City Clerk forward this transmittal to the appropriate City Council committee for consideration, and that the City Council, subject to the approval of the Mayor:

1. APPROVE a set aside, by way of ordinance, of former tax increment funds beginning in Fiscal Year 2014-2015 to the EWDD and Los Angeles Housing and Community Investment Department (HCIDLA) as follows:
 - A. Option 1: Set aside by way of ordinance, 20 percent of the former CRA/LA tax increment revenues to the Affordable Housing Trust Fund (AHTF) managed by HCIDLA and 80 percent of the former CRA/LA tax increment revenues to the Economic Development Investment Fund (EDIF) managed by EWDD, or
 - B. Option 2: Establish a 3-year phased-in set aside by way of ordinance, beginning in Fiscal Year 2014-2015, to achieve a maximum dedication of 100% of the CRA/LA tax increment revenues by Fiscal Year 2016-2017 as follows:
 - i. 10% HCID and 40% EWDD in FY 2014-2015
 - ii. 15% HCID and 60% EWDD in FY 2015-2016
 - iii. 20% HCID and 80% EWDD in FY 2016-2017
2. DIRECT the City Attorney's Office to draft an ordinance to permanently set aside a portion of the City's former tax increment funds based on the approved option of the City Council and Mayor, and
3. AUTHORIZE the respective General Manager's of HCIDLA and EWDD, or designee(s), to prepare Controller's instructions for any necessary technical adjustments consistent with Council and Mayor action on this matter, subject to the approval of the City Administrative Officer, and authorize the Controller to implement the instructions.

NEED FOR A CITYWIDE ECONOMIC DEVELOPMENT STRATEGY

Despite being one of the largest municipal economies in the United States, the City of Los Angeles lacks a comprehensive economic development and investment strategy. This deficiency has been keenly felt in the wake of the national recession and dissolution of the former CRA/LA and spurred the City into creating the Economic and Workforce Development Department in April 2013 (Ordinance 182500) to develop continuity around the city's disparate economic development efforts and spearhead a new and forward-thinking approach to neighborhood and citywide economic development.

Although funding to meet the policy mandates associated with the creation of EWDD was not achieved in the last fiscal year, EWDD is poised to move forward in earnest to develop and achieve the hierarchical economic and community development goals necessary. However it should be noted that progress will be stymied, if not halted altogether, by a lack of dedicated baseline resources. One time funding appropriations cannot guarantee a managed pipeline of projects and garner the matching private investment necessary to make a significant impact. The funds being requested and recommended in this transmittal, if achieved, would only represent at most 15% of what the City was receiving for economic and community development funding at its 2011 level under the former CRA/LA. However, this 15% is critical to establishing a baseline commitment.

The need for a citywide strategic plan for economic development that would raise living standards, improve household incomes, and jump start job growth has never been greater. City revenues have declined substantially, and there has been little or no job growth for over two decades. Decreases in the City's unemployment rate have lagged significantly behind the nation, state and county. As of March 2014, the unemployment rate stands at 9.7%, down only 0.2% since January 2014 when the rate was 9.9%.

Table I below shows a comparison of unemployment rates for the U.S., California and Los Angeles City and County.

TABLE I-UNEMPLOYMENT RATE COMPARISON FOR THE U.S., STATE OF CALIFORNIA, CITY AND COUNTY OF LOS ANGELES*

	JANUARY 2014	FEBRUARY 2014	MARCH 2014
U.S.	6.6%	6.7%	6.7%
CALIFORNIA	8.1%	8.1%	8.1%
LOS ANGELES CITY	9.9%	9.8%	9.7%
LOS ANGELES COUNTY	8.8%	8.7%	8.6%

*Sources-Bureau of Labor Statistics and State of California Employment Development Department, Labor Market Information

The City of Los Angeles, with an estimated population in 2013 of 3,862,839, is the second most populous City in the country after New York City, and the single most densely populated area in the United States. Although statistical trends demonstrate population growth continuing, it is also important to note that Los Angeles has also led the country in domestic outmigration. These trends highlight two critical issues that face the City: (1) how to balance growth and meet the infrastructure, housing and service needs of Los Angeles' population, and (2) how to stave off the loss of educated and skilled workforce to other

cities and states. In a recent study conducted by famed demographer Joel Kotkin, of the nation's largest metropolitan areas, Los Angeles came in 46th out of 51 in a ranking of overall affordability and 59th out of 65 as a "best city for jobs." Factors effecting Los Angeles' ranking included tepid income and salary growth, a cost of living almost 20% above the national average, and a lack of job growth in industries that guarantee well-paying jobs like manufacturing, science, technology, engineering and energy-related fields.

Even though it is the nation's largest industrial area, Los Angeles has not benefitted from the high-tech and industrial manufacturing resurgence which has raised the majority of metropolitan areas out of the recession. Los Angeles lost about 20% of its industrial jobs since 2006, and the losses have continued over the past year. The City is one of eight metropolitan areas in the nation that remain more than 100,000 jobs below their pre-recession levels, with Los Angeles carrying the highest deficit (over 333,000 jobs). It has been projected, based on current recovery levels, that it will take the City until 2020 to bring back the jobs lost in the recession and before the City can begin to count net new jobs. Additionally, the National Employment Law Project put out a report in May 2014 which determined that the majority of job gains made by the City of Los Angeles versus other metro areas post-recession are in sectors that pay lower wages than those jobs that were initially lost during the recession.

To reverse these trends it is vital the city, working through the EWDD, actively focus on investments to create an urban environment that promotes business creation and expansion, and provides opportunity for a balance of skilled and unskilled jobs and affordable housing and amenities that will brand Los Angeles as a 21st Century City fostering innovation and sustainability.

During this past year, EWDD has worked diligently to build the personnel and budget capacity and ready the department to assume the new and expanded citywide obligations for economic development arising from the impact of the dissolution of the CRA/LA and the corresponding interests of the Mayor and City Council for citywide economic development. As part of the formation of the department, a newly established Economic Development Investment Fund (EDIF) was created to align local, public and private resources for economic development. Initially the EDIF was funded with \$3.5 million of Community Development Block Grant (CDBG) funds identified in the 2013 Annual Plan, and it is anticipated that the EDIF will receive an additional allocation of \$3.5 million of CDBG in the 2014 Consolidated Plan. It is important to note that activities and projects funded with CDBG funds must meet all CDBG/HUD requirements and national objectives.

For Fiscal Year 2013-14 the Council and Mayor identified approximately \$3.0 million in city general funds that were placed in the Unappropriated Balance Fund, and \$1.7 million in CRA/LA residual loan funds (CIERLP) for economic development activities. It is anticipated the city will also be receiving additional resources from the CRA/LA dissolution's Recognized Obligation Payments, which could also be contributed to the Economic Development Investment Fund. Growing the fund is critical and these additional resources, if realized, will help off-set the remaining gap in funding to achieve pre-dissolution resource levels for economic development (estimated at \$160 million annually adjusted for CPI). However, given the funding levels necessary to create the economic stimulus desired, a baseline of \$4.7 million for a citywide economic development effort cannot produce the jobs or the results the City of Los Angeles needs to make a difference.

EWDD will work to leverage whatever resources it receives with private investment and foundation grants to contribute to and grow the EDIF, and we will also initially leverage the fund with city, state and federal economic development tools already available such as Section 108 loans, the Small Business Loan Fund, Industrial Development Authority Bonds, New Market Tax Credits and Hiring Tax Credits available from the State's Go Biz Office.

EDIF FUND PURPOSE AND ELIGIBILITY

The EDIF will be used for gap financing business capital start-up and expansion projects, citywide asset development, public infrastructure investment, neighborhood development, regional coordination on goods/movement and transportation, as well as programs that support sector and industry development. All expenditures are intended increase the city tax base revenue and create employment opportunities for local residents. Depending on the particulars of the overall project financing, the fund's investment could be structured as a grant, below-market rate loan, or direct funding of public improvements.

EWDD recommends that capital industrial or commercial projects from for-profit and non-profit entities be considered for funding as part of the city's revitalization efforts. All projects will be underwritten utilizing established criteria and submission of project documentation to determine and validate project readiness. Depending on the source of funds, the project will have to meet all Community Development Block Grant (CDBG) or other funding source eligibility requirements, including any City procurement requirements and job creation obligations. The EDIF will not fund-ongoing operations, but will be used as a line of credit, or as a guarantee for a line of credit.

BOOMERANG FUNDS

EWDD recommends the incorporation of Boomerang Funds returning to the city as a result of the dissolution of the CRA/LA into the EDIF and AHTF to initiate significant local investment to address the City's housing and job crisis. It is recommended that Boomerang Funds be set aside in percentages similar to those established for redevelopment, i.e., 20% for affordable housing programs and 80% for economic, development and public infrastructure programs. If budget or other constraints require a phased in approach, it is recommended that the City consider no more than a three-year phasing to reach this initial level of funding. The EWDD estimates that approximately \$40 million a year in Boomerang Funds will be available each year.

To date, the Boomerang Funds have been utilized by the City as a funding gap to balance the citywide budget. While a very strong argument can be made that the Boomerang Funds can and should be part of the solution to the City's structural deficit, it is recommended that the solution not be to use them as gap funding every year when there is a budget deficit, but rather as a source of investment that will secure permanent increased revenue to the General Fund over time. Forty-years of studies have proven that public investment in economic development and infrastructure leads to higher productivity and living standards. This investment, when made, equates directly to increased sales, utility user and property tax revenue for the City.

It is also important to note that public investment in economic development and infrastructure not only benefits the public sector, but the private sector as well. In a briefing paper published by the Economic Policy Institute in Washington D.C. in April 2012, after surveying the effects of public capital investments, it was found that public investment in infrastructure and economic capital initiatives produced significant positive impacts on private-sector productivity, with estimated rates of return ranging from 15 percent to upwards of 45 percent on the public dollars spent. If the City receives returns at this level, it is safe to assume that the fund expenditures will produce millions of dollars in additional revenue. These findings strongly suggest that increasing public investment is a more urgent policy priority than cutting spending, and that a significant increase in public investment spending would boost jobs in the short run, and pay enormous dividends in more rapid productivity growth, land value and higher household income in coming decades.

Additionally, the City needs to consider the social impacts of these expenditures. Investing in transportation, infrastructure, communications, housing and business capital will improve quality of life within the City for both its existing and future residents, and makes the City more competitive for new businesses in the long run.

ELIGIBLE ECONOMIC DEVELOPMENT PROJECTS

The following provides a proposed plan for allocating the Boomerang Funds based on an allocation of 40, 60 and 80 percent of available funds based on the current estimate of \$40 million per year. Although the dollar amounts will change, the percentages allocated to each program area remain relatively aligned. However, if less funds are available, it is proposed to put a slightly higher percentage into Capital Projects, as infrastructure investment can be targeted to regional job hubs and have a broader geographic impact. If preserved as a consistent source, EWDD would recommend using a portion of the funds available for administrative overhead, staffing and related consultant work. Additionally, as more funds become available, the programs can drill down to neighborhood and community-level investments rather than focus on broader initiatives and projects that serve a more regional or citywide focus. EWDD will be submitting at a later date for consideration and approval by City Council and the Mayor policies to determine project eligibility based on a number of factors including but not limited to established financing, project readiness, acceptable pro forma and status in the entitlement process. Projects for economically viable areas of the City, and economically disadvantaged and less stable areas in the City will be addressed in the overall strategy for project support.

If EWDD does in fact receive 80% of the Boomerang Funds, the projects that could be funded would be anticipated to produce hundreds of direct construction and permanent jobs on an annual basis, and thousands of indirect jobs, along with increased sales and property tax.

EDIF AT 40%	Total	%
Program Implementation		
Market Investment	\$ 6,000,000	37.5%
Innovations	\$ 1,500,000	9.4%
Capital Projects	\$ 7,250,000	45.3%
Economic Strategy	\$ 500,000	3.1%
Asset Management	\$ 750,000	4.7%
Subtotal-Program Implementation	\$ 16,000,000	100.00%

EDIF AT 60%	Total	%
Program Implementation		
Market Investment	\$ 9,000,000	37.5%
Innovations	\$ 3,000,000	12.5%
Capital Projects	\$ 10,000,000	41.7%
Economic Strategy	\$ 1,000,000	4.2%
Asset Management	\$ 1,000,000	4.2%
Subtotal-Program Implementation	\$ 24,000,000	100.00%

EDIF AT 80%	Total	%
Program Implementation		
Market Investment	\$ 11,000,000	34.4%
Innovations	\$ 5,000,000	15.6%
Capital Projects	\$ 12,250,000	38.3%
Economic Strategy	\$ 1,750,000	5.5%
Asset Management	\$ 2,000,000	6.3%
Subtotal-Program Implementation	\$ 32,000,000	100.00%

EWDD recommends projects in 5 categories for immediate consideration:

1. Market Investment

Seek to provide funding for small and large businesses as well as potential multi-use projects. The funds will be sub-categorized to address specific sector strategies or industry development and will include a small-business / entrepreneurial component and a neighborhood-focused component. The intent of the funds would be to provide technical support as well as capital for business creation and expansion. The Market Investment transactions can also include larger real estate deals that bring jobs along with local amenities to neighborhoods. Some multi-use projects are anticipated in Transit Oriented Development (TOD) areas in partnership with the MTA and the private sector and could include projects like Laurel Plaza in North Hollywood, the Montgomery Ward site in Van Nuys, Westwood Village in West Los Angeles and Mariton Square in South Los Angeles. Small business loans would most likely average \$400,000 and Major Project funding would be around \$2 million. With these numbers in mind, it's anticipated that the program could assist anywhere between five and fifteen projects a year.

2. Innovations

This program is focused on fostering innovation in emerging sectors. Projects could include matching grants for small and neighborhood businesses using Crowdsourcing for funding, developing incubator space and joint-work spaces, focusing on creative economies and coordinating with emerging sectors to develop programs and marketing that will specifically address the needs of that business community. Depending on the funding available, the City could anticipate providing resources for up to 20 small businesses a year and developing one to two new incubators.

3. Capital Projects

EWDD recommends the use of Boomerang Funds to create the physical infrastructure, facilities and amenities to invest in commercial and industrial hubs in the City as well as areas of high tourism and TOD. Such investment is expected to facilitate the creation or rehabilitation of new and existing sports and cultural facilities, markets, buildings and amenities enhancing the City's competitive edge. EWDD would take the lead on complex infrastructure projects that involve multiple grant sources and private partnerships by establishing financing for these projects, managing the design and construction, and arranging long-term/short-term maintenance agreements. It is anticipated that projects will vary in size and need for local funding. Projects that leverage other sources and/or produce higher job numbers will be prioritized.

There are a wide array of project types within this category. Below are a few examples.

Tourism Infrastructure-these projects would include improving infrastructure in designated areas of the City for cultural, entertainment or sports-related uses. They may also include developing emerging urban tourism for tourists/visitors who are interested in specific experiences such as eco, food or other areas. Projects could include upgrades in Chinatown Plaza, the Downtown Streetcar, related streetcar projects in other neighborhoods, My Figueroa, Fashion District way-finding, parking and walkability improvements, etc.

High Speed Internet and Technology-create more public Wi-Fi hotspots and develop plans to improve high-speed access to lower income areas and commercial hubs:

Goods/Movement-develop infrastructure projects along key transit corridors to facilitate goods movement. These projects should also include reinforcing streets for heavy weight truck traffic, especially in those areas like Wilmington and Harbor City-Gateway where streets are in desperate need of repair or industrial parks lacking paved streets and sidewalks.

Great Streets-develop plans for infrastructure projects for neighborhoods designated part of the Great Streets Program and implement a streetscape/signage/ and branding program.

4. Economic Strategy

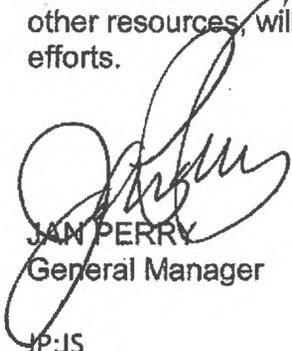
Funds available in this program area will be utilized to focus on research and tracking of various job sectors, demographic changes, and metrics that influence the placement and use of funds from the EDIF. Additionally, these funds could be utilized to coordinate marketing strategies for the City of Los Angeles and its various industries nationally and globally. Projects could include developing websites to promote the fashion-related businesses in the City or partnering with Experience LA or other existing tourism-related tools to highlight and publicize certain geographic areas or businesses through events and marketing.

5. Asset Management

Funds dedicated to Asset Management will provide a resource for maximizing the value of City-controlled property, whether it's a pre-existing asset or a transferred asset from the CRA/LA. The funds available will pay for title, management and marketing services as well as potential tenant improvements, design and permitting. Depending on the funding available, EWDD will concentrate time and effort on assets that have the highest potential for immediate returns and/or are determined to be in emerging market areas.

CONCLUSION

Over the next year, EWDD will be organizing the city's consolidated economic development efforts, developing a citywide strategic plan for economic development, and establishing the necessary groundwork to increase economic growth in Los Angeles. EWDD will work in concert with HCIDLA to align priorities and projects to maximize impacts on a community level. EWDD will also align our grant-funded workforce and youth development programs with the economic development efforts that will be funded through EDIF to ensure that the jobs created through our economic development efforts will serve local interests and reduce unemployment, especially in economically disadvantaged areas of the City. However, as mentioned in the beginning of this report, building a base of funding by using the EDIF and a substantial dedicated portion of Boomerang Funds, as well as leveraging of other resources, will be critical to the success of these proposed economic development efforts.



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