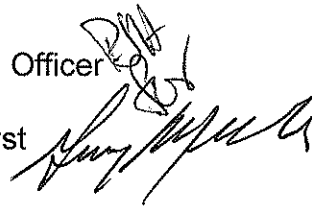


CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

C.F. No. 08-3050
0220-04538-0002

Date: June 19, 2012
To: The Honorable City Council

From: Miguel A. Santana, City Administrative Officer
Gerry F. Miller, Chief Legislative Analyst



Subject: **ADDENDUM TO JOINT CAO/CLA REPORT ON POLICY OPTIONS FOR CITYWIDE ECONOMIC DEVELOPMENT FUNCTIONS**

SUMMARY

On April 17, 2012 the City Administrative Officer (CAO) and the Chief Legislative Analysts (CLA) issued a joint report as directed by the City Council on policy options for the citywide economic development functions as a result of the elimination of the Los Angeles City Redevelopment Agency (CRA). Three Council committees considered this report: Housing, Community and Economic Development; Personnel and Animal Welfare; and Jobs and Business Development. While not every recommendation made by the CAO and CLA was approved by each committee and forwarded for Council consideration, the following recommendations each demonstrate support for the establishment of a new economic development entity with the mission of implementing the City's economic development goals and projects.

Housing, Community and Economic Development

INSTRUCT the CAO and CLA to secure a consultant to assist in the development of the components and interactions of this new Department or entity and the non-profit entity, SET ASIDE funds in the Fiscal Year 2012-13 Proposed Budget from the proceeds of the City's share of additional property tax payments due to the elimination of the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) in order to fund a consultant, staffing, and program for the new Citywide economic development model.

Personnel and Animal Welfare

APPROVE in concept the establishment of an economic development entity and request that the Council hold a focused hearing on the establishment of a nonprofit organization that will contract with the City to implement the City's economic development goals and projects.

Jobs and Business Development

APPROVE the recommendations contained in the April 12, 2012 CAO/CLA report, including approving in concept the establishment of an economic development entity, comprised of a new Economic Development Department and a new economic development nonprofit organization that will contract with the City to implement the City's economic development goals and projects.

One model that the CAO and CLA have begun to examine is that of a not-for-profit economic corporation working alongside an Economic Development Department with a mission of encouraging economic growth through private investment. This new model would provide greater flexibility and opportunities for revenue growth and allow for an enhancement of citywide economic benefits.

There are several steps required before this or any new economic development model can take up the much needed work of facilitating economic growth. However, one first and critical step is the identification of funds that can be used to conduct a full review of existing models that can meet the needs of the City as well as the seed funds to get the model off the ground in a timely manner.

In his proposed 2012-13 Budget, the Mayor proposed setting aside \$2.5 million in the General City Purposes (GCP) to initially fund the establishment of a new economic development structure. The Council's adopted budget for 2012-13 reduced that amount to \$500,000 to conduct the review of new economic development models for the City. However, the Council also instructed our offices to report back by June 30, 2012 with a proposed restoration of the \$2 million with possible mechanisms to encourage private investment in the City's economic development efforts.

Consistent with the recommendations noted above from the three different policy committees and the Council's budget instructions, the CAO and CLA recommend that an additional \$2 million be identified within the budget for 2012-13 as a dollar-for-dollar match to privately raised economic development funds. More specifically, the use of the City's \$2 million would only occur after privately raised economic development funds of the same amount were identified and/or spent in accordance with the City's policy direction.

Given the ongoing difficulties the City is experiencing with regard to its budget and fiscal outlook, the CAO/CLA acknowledge that a permanent source of funding must be identified for any economic development model to work. However, in light of the immediate need to initiate a new model, the CAO/CLA recommend a Reserve Fund loan of \$2 million to provide matching funds for the creation of a new economic development fund. The loan will be repaid from either 2011-12 reversions to the Reserve Fund that are above the amount budgeted for 2012-13 and/or any revenue from Transient Occupancy Tax (TOT) or sales tax above what has been budgeted for 2012-13. Pursuant to these conditions, the \$2 million for the new economic

development model would be transferred to the Unappropriated Balance (UB) under a new line item entitled New Economic Development Model until such time as the City Council and Mayor approved the transfer of funds from the UB to the appropriate fund and/or department.

In making the recommendation to fund the \$2 million for economic development, our Offices balanced the need to maintain the Reserve Fund at the level budgeted for 2012-13 with the need to provide stimulus funds for economic development. By utilizing incremental reversions and/or revenue above those budgeted, both objectives are met. However, this does mean that these funds are not available to cover any mid-year shortfalls that may materialize over the course of the fiscal year.

RECOMMENDATION:

That the Council, subject to the approval of the Mayor:

1. Instruct the City Clerk to place on the first agenda after July 1, 2012 the following recommendations:

A. Authorize the Controller to transfer \$2 million from the Reserve Fund to the Unappropriated Balance and appropriate within the fund to a new account entitled Economic Development Model; and,

B. Direct the City Administrative Officer to identify either excess 2011-12 reversions to the Reserve Fund above 2012-13 budget and/or incremental revenue from Transit Occupancy Tax or sales tax above 2012-13 budget to repay the \$2 million loan and include repayment instructions in the Financial Status Report.

FISCAL IMPACT STATEMENT

Based on the recommended actions, additional reversions to the Reserve Fund over and above budgeted reversions will be transferred to the Unappropriated Balance. However, the use of the City's \$2 million would only occur after privately raised economic development funds of the same amount were identified and/or spent in accordance with the City's policy direction. Use of incremental reversions and/or revenue maintains budgeted reserve levels but leaves lesser resources to cover any mid-year shortfalls.

Additional actions in support of the creation of a new economic development entity could include costs for staff, equipment, operating costs, and other expenses that may exceed \$2 million. This additional fiscal impact can be better estimated once specific personnel requirements, facility, operational and equipment costs are identified in a subsequent report to the Mayor and Council based on the review of new economic development models funded within the budget.