

# TRANSMITTAL

To:

**THE COUNCIL**

Date:

**SEP 11 2015**

From:

**THE MAYOR**

**TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.**



**ERIC GARCETTI**  
Mayor

Ana Guerrero

CITY OF LOS ANGELES  
CALIFORNIA

JAN PERRY  
GENERAL MANAGER



ERIC GARCETTI  
MAYOR

ECONOMIC AND WORKFORCE  
DEVELOPMENT DEPARTMENT

1200 W. 7<sup>TH</sup> STREET  
LOS ANGELES, CA 90017

September 1, 2015

Council File No.:  
Council District Nos.: All  
Contact Persons and Phones:  
Jenny Scanlin, (213) 744-9723

Honorable Eric Garcetti  
Mayor, City of Los Angeles  
Room 303, City Hall

Attention: Mandy Morales, Legislative Coordinator

**COMMITTEE TRANSMITTAL: REQUEST AUTHORITY TO APPROPRIATE \$1 MILLION FROM THE UNAPPROPRIATED BALANCE TO THE ECONOMIC AND WORKFORCE DEVELOPMENT DEPARTMENT AND VARIOUS OTHER ACTIONS TO INCREASE DEPARTMENT CAPACITY FOR ASSET MANAGEMENT AND ECONOMIC DEVELOPMENT ACTIVITY**

The General Manager of the Economic and Workforce Development Department (EWDD), respectfully requests that your office review this transmittal and forward to the City Council for their consideration and approval.

**RECOMMENDATIONS**

That the Council, subject to approval of the Mayor:

1. AUTHORIZE by resolution the following three positions in the Economic and Workforce Development Department from January 1, 2016 through June 30, 2016, subject to position allocation by the Personnel Department and pay grade determination by the City Administrative Officer (CAO):

<u>No.</u>	<u>Code</u>	<u>Class Title</u>
1	9191-2	Industrial Commercial Finance Officer II
1	1964-3	Property Manager III
1	1964-2	Property Manager II

2. AUTHORIZE the Controller to:

- a. Establish a new interest-bearing fund entitled "Economic Development Asset Management Fund No. XXX" to be administered by EWDD.
- b. Transfer \$1,000,000 cash from the City UB to the newly established Economic Development Asset Management Fund No. XXX.
- c. Establish new account 22M801, Economic Development Asset Management-UB, within the newly established Economic Development Asset Management Fund No. XXX and appropriate \$1,000,000.
- d. Establish new account and transfer appropriations within the newly established Economic Development Asset Management Fund No. XXX as follows:

Acct. No.	Acct. Name	Amount
<b>From:</b>		
22M801	Economic Development Asset Management-UB	472,580
<b>To:</b>		
22M122	EWDD	472,580

- e. Increase appropriations within Fund 100/22 as follows:

Acct. No.	Acct. Name	Amount
001010	Salaries-General	418,062
001070	Salaries-As Needed	1,834
001090	Overtime	66
002120	Printing and Binding	175
002130	Travel	255
003040	Contractual Services	7,692
003310	Transportation	296
006010	Office and Admin	3,265
006020	Operating Supplies	5
006030	Lease	40,930
<b>Total</b>		<b>472,580</b>

- 3. INCREASE the Economic and Workforce Development Department's contractual services authority for Fiscal Year 2015-2016 for economic development related consultants in an amount not to exceed \$1,000,000 to be funded by various sources including \$527,420 from new account 22M801, Economic Development

Asset Management-UB within the newly established Economic Development Asset Management Fund No. XXX and include authority to:

- a. AUTHORIZE City Departments to transfer up to \$350,000 cash to EWDD for economic development consulting services.
  - b. Accept and deposit funds received from City departments into and appropriate within the appropriate fund accounts.
4. AUTHORIZE EWDD to receive and deposit funds up to \$50,000 received from the Los Angeles Harbor Department into the Miscellaneous Fund No. 45L for consulting services;
  5. AUTHORIZE the Controller to establish a new account, 22M901, Port of LA, within EWDD's existing Miscellaneous Fund No. 45L and appropriate up to \$50,000;
  6. AUTHORIZE the Controller to:
    - a. Establish an interest-bearing fund entitled "LA City Industrial-Commercial Revolving Loan Fund No. XXX" to be administered by EWDD to track receipts and disbursements related to the City's former Economic Development Agency's Revolving Loan Fund.
    - b. Establish a receivable within the newly established LA City Industrial-Commercial Revolving Loan Fund No. XXX from the Los Angeles LDC, Inc. for \$73,660.
    - c. Deposit claim settlements, loan payments and other collections received into the newly established LA City Industrial-Commercial Revolving Loan Fund No. XXX.
    - d. Establish new accounts within the newly established LA City Industrial-Commercial Revolving Loan Fund No. XXX and, upon receipt of claim settlements, loan payments and other collections, appropriate therefrom on an as-needed basis for related consultant and professional services.
    - e. Transfer cash, appropriations, encumbrances, expenditures and other financial transaction related to the loan program previously recorded in the Miscellaneous Fund No. 45L to the newly established LA City Industrial-Commercial Revolving Loan Fund No. XXX.
  7. INSTRUCT the City Administrative Officer to identify \$300,000 in available resources to cover the cost of appraisals required by the City's Option Agreements for various CRA/LA Properties and transfer to EWDD to administer;

8. AUTHORIZE the Controller to:
  - a. Establish a new interest-bearing fund entitled "CRA/LA Properties Fund No. XXX" to be administered by EWDD to track receipts and disbursements related to CRA/LA Optioned Properties.
  - b. Deposit funds up to \$300,000 received from the Office of the City Administrative Officer into the newly established CRA/LA Properties Fund No. XXX.
  - c. Establish new account 22M790, CRA/LA Properties-CAO, within the newly established CRA/LA Properties Fund No. XXX and appropriate \$300,000 for related appraisal services.
9. REQUEST the City Attorney to amend Ordinance 176632 which established the Enterprise Zone Hiring Tax Credit Voucher Special Revenue Fund 48L, to expand EWDD's authority to utilize the Fund for staffing and consultant costs directly related to promoting the objectives and goals of the former State Enterprise Zones within the City of Los Angeles;
10. REQUEST the City Attorney to amend Ordinance 182500 adding provisions to the Administrative Code authorizing EWDD to dispose of properties received as security for non-performing loans through foreclosure, deed in lieu or other legal means for Fair Market Value in compliance with Federal regulatory requirements;
11. INSTRUCT the General Manager of EWDD, or designee, to issue Requests for Qualifications (RFQs) to create pre-qualified lists for on-call consultant services in accordance with City Procurement and Charter Section 1022 to assist with the department's development and disposition of City properties, Consolidated Plan projects, Section 108 Loan Guarantee projects, economic development projects, and small business lending;
12. AUTHORIZE the General Manager of EWDD, or designee, to prepare additional Controller instructions and/or make any necessary technical adjustments that are consistent with this action, subject to the approval of the City Administrative Officer and authorize the Controller to implement these instructions.

## **FISCAL IMPACT STATEMENT**

Sufficient funds are available in the FY2015-2016 Unappropriated Balance (Economic Development Asset Management) and were approved by Council and the Mayor during the FY2015-2016 Budget process for the purpose of funding new positions and associated costs to support EWDD's asset management activities. The department is proposing to fill five positions utilizing these funds, two of which are existing EWDD position authorities. The first year budget for five positions and related expense includes \$343,292 in direct salary costs, \$527,420 for complimentary consultant services, and

\$129,288 in general administrative expense. The related costs for staff salaries are estimated at \$227,410 this fiscal year.

The ongoing annualized cost for EWDD's new asset management function is projected to consist of \$587,401 in direct salary costs, \$397,901 for consultant services, and \$217,484 in general administrative expense and will require continued General Fund support. The twelve-month related costs total is projected to be \$319,252.

Since the funding source has not been identified for Recommendation No. 7, the \$300,000 requested for CRA/LA Option Property appraisals may have a General Fund impact.

All other funding sources referenced in the recommendations are Special Funds residing at EWDD or are General Fund sources that have already been approved for expenditure in the City's FY2015-2016 Budget.

## **SUMMARY**

The Economic and Workforce Development Department is requesting \$1 million of the Unappropriated Balance be released to the department for expenditure in FY2015-2016, and further requesting other conforming actions to enhance EWDD's economic development and asset management functions. The EWDD's proposed use of the Unappropriated Budget is consistent with the department's budget request for this fiscal year and will enable EWDD to fund key technical positions and consultant services. The additional actions requested will allow EWDD to utilize various Special Funds housed within EWDD and with the department's partners in economic development for limited consultant and contract activities related to planning, economic analysis, system development, real estate and escrow services. Lastly, proposed amendments to the City's Administrative Code governing EWDD's property disposition authority will allow EWDD to sell property received as security for loans issued with federal or other funds requiring full repayment or liquidation of assets at Fair Market Value without deed restriction outside the City's surplus process.

## **BACKGROUND**

### ***FY2015-2016 Budget Resources for Economic Development***

The allocation of general fund resources and position authorities to support and strengthen EWDD's economic development responsibilities has been incremental since Council instituted these efforts in FY2012-2013 by adopting Council File No. 08-3050 creating the department. The adopted FY2015-2016 budget proposes a total allocation of \$1.3 million to increase department capacity with a strong emphasis on supporting a new asset management function within the department.

The FY2015-2016 Adopted Budget added \$300,000 in a combination of General Fund and General City Purposes Fund dollars for positions to support economic development activities citywide. The funding allows EWDD to fill two existing vacant positions as well

as two new resolution positions supported with six months of funding for the Great Streets Initiative. These two added technical positions will implement a new façade program in the City, serving small businesses along five of the Great Streets corridors.

To further support asset management and economic development within EWDD, the FY2015-2016 Budget included \$1 million in the Unappropriated Balance (UB). However, this funding can only be utilized by EWDD with the approval of the recommendations contained herein. These funds will be used for property analysis, development and disposition activities related to economic development. The activities related to EWDD's new Property Development and Disposition function include the economic re-use of City Property through sale or ground lease, development of joint-use or public/private ventures, and the rehabilitation and lease of properties for economic purposes. The EWDD will manage a combination of new and existing staff and consultants to support these activities.

Currently, EWDD is managing various stages of property analysis and disposition for a range of City-owned assets located in ten different council districts. Staffing available within the department to focus on these twenty separate projects is currently limited to the Assistant General Manager of the Economic Development Division of EWDD and one Principal Project Coordinator. To date, EWDD has engaged consultants to supplement the department's work when outside resources are identified, but has not carried its own budget allocation for this level of specialized assistance. Council's current priorities are focused on realizing the City's vision for long-standing projects including but not limited to developing Mariton Square in South Los Angeles, constructing a hockey rink and mixed-use development in Reseda, historic renovation of the Westlake Theater in MacArthur Park and redeveloping Parcel Y-1 a large piece of property in the heart of downtown Los Angeles located over a Metro portal. However, new projects are also on the horizon and building on the economic engines of the Port in downtown San Pedro and Wilmington as well as the Metro rail on Crenshaw Boulevard in Leimert Park. Whether large or small, each property deserves the same level of devoted staff time and creative project development necessary for meaningful and timely results.

The evaluation process for any one property requires the compilation of significant data and analysis, engagement of stakeholders, and vetting of multiple cost/benefit scenarios. The disposition process, whether through a competitive bid, lease, or direct sale requires intensive preparation, analysis, negotiation and documentation. Repurposing the City's underutilized assets can bring about huge public benefit and catalytic projects for the City of Los Angeles and its communities but requires a great level of skill, focus and time commitment to meet that desired end. The \$1 million in Unappropriated Balance is key to putting together the staff and consultant team required to meet best practice standards in asset management and public real estate development and disposition.

### ***Position Authority Request***

To align current staffing needs with the final allocation approved in FY2015-2016, and to ensure EWDD can adequately meet existing programmatic expectations while

undergoing the hiring process, EWDD is proposing to appropriate the \$1 million in UB funding for a combination of position costs and consultant services. Responsibility for the repurposing of City-owned and CRA/LA properties requires staff with technical backgrounds in real estate development, property management, relocation and planning, therefore the EWDD is requesting position authority for one Property Manager III, one Property Manager II and one Industrial and Commercial Finance Officer II (ICFO II). The Property Manager classification is new to EWDD and considered critical to filling in the technical expertise necessary for the department to oversee this work. The Property Manager II, along with one existing Clerk Typist and Principal Project Coordinator, will work as a team under the direction of the Property Manager III to administer EWDD's Property Development and Disposition Unit. The positions selected for this initial asset management team will allow EWDD to add strongly needed technical staff who bring subject matter expertise.

The Property Development and Disposition Unit will be assisted by and work in concert with key staff in EWDD's Market Investments and Innovations Unit, therefore this request includes funding for two key underwriting and lending positions in this unit: one ICFO II and one Senior Management Analyst I. These positions will assist in analyzing market data and creating pro forma documents for land development and leasing, provide reuse analysis, and draft reports for land write-down and recommend deal terms. The work conducted by the ICFO II and Senior Management Analyst I will ensure a Property Development and Disposition project is well-securitized, provides monetary benefit to the City and is financially feasible. Placing these positions in the Market Investments and Innovations Unit allows EWDD to expand the strength of its current lending staff and will improve management of EWDD's small business and major projects lending portfolio and the City's real estate portfolio.

The positions in Table 1 are proposed to be funded out of the Unappropriated Balance and will require continued General Fund support in future fiscal years:

**TABLE 1: FY2015-16 PROPOSED REAL ESTATE MANAGEMENT STAFFING**

Qty	Class Code	Classification	Salary (Annual)	Funding FY15-16	FY15-16 Salary
1	9191-2	ICOF II	\$ 112,940	6 Months	\$ 56,470
1	1964-3	Property Manager III	134,676	6 Months	67,338
1	1964-2	Property Manager II	124,361	6 Months	62,181
1	9171-1	Senior Management Analyst I*	108,842	9 Months	81,632
1	1358	Clerk Typist*	52,519	9 Months	39,389
		<b>Total</b>	<b>\$ 533,338</b>	<b>\$ -</b>	<b>\$ 307,009</b>

\*Indicates FY15-16 EWDD existing authority.

**Consultant Services Funding**

The recommendations propose Unappropriated Balance funds be available to cover consultant costs. Prior to hiring staff, EWDD will be heavily reliant on utilizing consultants for site analysis, brokerage services, environmental reports, title reports,



appraisals and other specialized tasks. Once EWDD has fully staffed these proposed positions, it is anticipated that the need for consultant services will be less but still necessary to keep up with workload.

In addition to utilizing Unappropriated Balance funds, EWDD is also requesting additional budget authority to utilize fund transfers from other City departments, Enterprise Zone Tax Credit Voucher Fees, Section 108, Miscellaneous Income, and Community Development Block Grant funds as well as anticipated new fund accounts as sources of funding for professional service contracts during the fiscal year in an amount not to exceed one million dollars. This is a technical request to address budget authority and does not circumvent EWDD's requirements to follow City procedures in its bidding, approval or execution of consultant contracts going forward.

#### ***Enterprise Zone Tax Credit Voucher Fees***

On April 26, 2005, the City of Los Angeles established by Ordinance 176632 the Enterprise Zone Hiring Tax Credit Voucher Special Revenue Fund 48L for fees collected during the processing of Tax Credit Vouchers for qualifying businesses in the City's active Enterprise Zones. Although the Enterprise Zone Program expired on January 1, 2014, EWDD along with other Enterprise Zone administrators throughout the State were allowed to continue processing vouchers through December 2014. The success of the program allowed EWDD to collect fees which have not yet been exhausted on related administrative costs. The City's contract with the State of California, enacted to run its local Enterprise Zones, allows EWDD to retain the fees and utilize them for administrative and programming purposes to achieve the goals embodied in each Enterprise Zone application. However, the City's fund ordinance was written narrowly, to restrict the funds for tax credit voucher processing only.

The recommendation for an amendment to Ordinance 176632 is in compliance with the City's contract with the State and would allow EWDD to expend these limited funds to cover position costs related to continued close out of the Enterprise Zones and to deliver services to the LA/Hollywood, East Los Angeles and Harbor Enterprise Zones through EWDD's existing economic development programs. Additionally, EWDD would utilize the balance of funds to analyze and develop new programs, policies and services to replace the incentives provided through the Enterprise Zones. The funds would be available for one-time expenditures for consultant services, pilot projects, pursuing new funding sources or expanding the availability of existing programs. The adopted Fiscal Year 2015-2016 Budget allocates \$1,606,562 for staff and lease costs, leaving an approximate balance of \$220,345 for these allowable activities and charges.

#### ***Site Planning Consultant for the San Pedro Waterfront***

On May 29, 2015, the Mayor and Council approved a motion that authorized the Los Angeles Harbor Department to transfer \$30,000 to EWDD for consultant services to complete a Real Estate and Market Feasibility study for publicly owned sites in the San Pedro area (Council File No. 14-1330-S1). A consultant has been competitively selected from the City Administrative Officer's prequalified list of Real Estate, Economic Development and Site Planning Consultants to conduct the study. The total cost for this

consultant service contract is estimated to be \$100,000. In order to accommodate the actual cost of the study, the Harbor Department and Office of the Chief Administrative Officer have tentatively committed to cover an equal portion of the consultant cost. Remaining consistent with the Mayor and Council action, EWDD is requesting authority to receive and deposit up to \$50,000 from the Harbor Department.

### ***CRA/LA Appraisal Fund***

The City of Los Angeles has entered into ten time-limited Option Agreements with the City's former redevelopment agency ("CRA/LA"). These Option Agreements set forth a process by which the City can control the long-term development of these catalytic properties for community benefit. Essential to this process is joint agreement on the Fair Market Value the City will pay to CRA/LA for each property. A procedure has been drafted into the Option Agreements which requires the City to pay for all appraisals necessary to make value determinations. Within the current procedure, the City is required to pay for up to three appraisals: 1) the initial City appraisal; 2) the initial CRA/LA appraisal; and 3) a final appraisal required if the two initial appraisals are more than 10% apart in their value determinations. Since executing the Option Agreements in January 2015, the City has been actively pursuing disposition strategies for these properties and anticipates the need to have funds available to initiate this appraisal process. The EWDD's best estimate of cost for related appraisal services is \$300,000, which would provide an average of \$30,000 per project. The proposed recommendations would create a new fund managed by EWDD to be utilized for the sole purpose of meeting the City's contractual obligation under these Option Agreements for appraisal services and requests assistance from the Office of the City's Administrative Officer to identify an available fund source.

### ***Prequalified Consultant Lists***

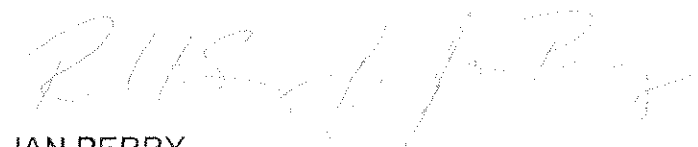
During the shift of personnel and responsibility for neighborhood services and Consolidated Plan authority to the Housing and Community Investment Department in 2013, EWDD lost positions with subject matter expertise in environmental planning, grants management and relocation. These functions are still critical to EWDD's economic development efforts and necessary to remain in compliance with federal, state and local regulations. With no replacement positions budgeted to date, EWDD must rely more heavily on consultant services. Additionally, new real estate portfolio functions are reliant on outside consultants for survey and appraisal work, due diligence and brokerage services. To date, EWDD has utilized consultants on an as needed basis, procured from pre-qualified lists associated with various City departments to supplement the department's work. However, based on the unique requirements of EWDD's economic development programs and responsibilities, the EWDD anticipates the need to create specific pre-qualified lists of consultants to service its newly-formed façade program, real estate and lending functions. The EWDD has determined that creating and utilizing these pre-qualified consultant lists would benefit the City through increased department productivity, faster response times, and expanded capacity. The potential pre-qualified lists would include Architectural Services for the Façade Program, Appraisal and Appraisal Review Services, Title and Escrow Services, Brokerage Services, Environmental Review, and Relocation. EWDD will solicit utilizing the City's

procurement procedures and will ensure that noticing and posting of these opportunities will be broadly focused with a strong effort to reach small, local, minority and women-owned businesses. Any proposed list of pre-qualified consultants would be brought to Council for final review and approval before certification.

### ***Sale of Securitized Assets***

The EWDD's lending programs utilize federal funding to provide businesses and private developers a source of financing for real estate projects and business investments that spur economic development. These City-sponsored investments require security pledges that in many cases include a first or second deed of trust on commercial, rental or residential real estate. In the event of default, EWDD can call on one or more of the pledged securities to make good on the City's repayment to the U.S. Department of Housing and Urban Development (HUD) and secure the City's future borrowing capacity. Federal regulations require the assets be sold at Fair Market Value and all proceeds of sale returned as Program Income to repay the HUD loan in full. Any proceeds of sale available after full repayment are categorized as Program Income and required to be reprogrammed through a future Consolidated Plan. The EWDD's current disposition authority in the City's Administrative Code requires the department to deed restrict any property it sells for public benefit purposes. In order to meet oversight regulations imposed by the Federal government, EWDD needs authority to sell specific assets received as the result of default or foreclosure without restriction in order to achieve Fair Market Value. This disposition cannot be achieved with the City's current surplus or economic development process. Depending on internal capacity and cost efficiency, EWDD anticipates utilizing licensed staff or traditional residential or commercial brokerage services to market the properties and achieve the highest value. All properties would be approved for sale by Ordinance adopted by Council at the time a buyer is identified and price is set. The EWDD's Portfolio Management Unit is currently managing two properties received through foreclosure that need to be disposed in this proposed manner. The recommendations request the City Attorney return to Council with a proposed amendment to Ordinance 182500 in order to codify new provisions for the sale of properties received as security for non-performing loans and subject to regulatory requirements for a Fair Market Value sale.

Addressing these technical matters will assist EWDD in developing its asset management and real estate role for the City utilizing the resources at its disposal in this fiscal year and provides the necessary funds and authority required to meet City contractual obligations to HUD and CRA/LA.



JAN PERRY  
General Manager

JP:js

Attachment A: Controller Instructions Terminology

Controller Instructions Terminology

- (1) The **Economic Development Asset Management (EDAM) Fund** is a new fund that will be used to record financial transactions related to EWDD's asset management activities.
- (2) The **Economic Development Asset Management-UB** is a new account established to receive \$1,000,000 in cash transferred from the Unappropriated Balance for salaries, overhead and consultant costs associated with administering EWDD's Asset Management responsibilities.
- (3) The **LA City Industrial-Commercial Revolving Loan Fund** is a new fund that will be used to record settlements, loan payment collections and disbursements related to EWDD's revolving loan program.
- (4) The **CRA/LA Properties Fund** will be used to record financial transactions related to the City's Option Agreement with CRA/LA.
- (5) The **Miscellaneous Fund No. 45L** is an existing fund used by EWDD for miscellaneous transactions, private donations, or one-time or short-term grants.
- (6) "**Transfer cash**" is to indicate that we are requesting for cash to be transferred from the funding source to the designated special fund.
- (7) The **Economic Development Agency's Revolving Loan Fund** is an expired Economic Development Agency-funded program previously managed by the City of Los Angeles to provide low-interest loans to qualifying businesses located in the City of Los Angeles.