

# CITY OF LOS ANGELES

CALIFORNIA

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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 21<sup>st</sup> 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\***

	<b>JANUARY 2014</b>	<b>FEBRUARY 2014</b>	<b>MARCH 2014</b>
<b>U.S.</b>	6.6%	6.7%	6.7%
<b>CALIFORNIA</b>	8.1%	8.1%	8.1%
<b>LOS ANGELES CITY</b>	<b>9.9%</b>	<b>9.8%</b>	<b>9.7%</b>
<b>LOS ANGELES COUNTY</b>	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 46<sup>th</sup> out of 51 in a ranking of overall affordability and 59<sup>th</sup> 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 21<sup>st</sup> 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.

<b>EDIF AT 40%</b>	<b>Total</b>	<b>%</b>
<b>Program Implementation</b>		
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%
<b>Subtotal-Program Implementation</b>	<b>\$ 16,000,000</b>	<b>100.00%</b>

<b>EDIF AT 60%</b>	<b>Total</b>	<b>%</b>
<b>Program Implementation</b>		
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%
<b>Subtotal-Program Implementation</b>	<b>\$ 24,000,000</b>	<b>100.00%</b>

<b>EDIF AT 80%</b>	<b>Total</b>	<b>%</b>
<b>Program Implementation</b>		
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%
<b>Subtotal-Program Implementation</b>	<b>\$ 32,000,000</b>	<b>100.00%</b>

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 Marlton 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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