

Los Angeles
World Airports

September 1, 2016

The Honorable City Council
City of Los Angeles
City Hall, Room 395
Los Angeles, CA 90012

SUBJECT: CF 16-0992 Draft Ordinance Establishing a Local and Local Small Business Enterprise Program For Los Angeles World Airports' Procurement of Goods, Equipment and Services, Including Design and Construction, for Contracts with an Expenditure in Excess of \$150,000

LAX

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Deborah Flint
Chief Executive Officer

Dear Councilmembers:

Los Angeles World Airports ("LAWA") initiated the above-titled draft ordinance (hereafter "Draft LBE Ordinance"), which has been approved by the Board of Airport Commissioners and transmitted to the City Council by the Los Angeles City Attorney's Office. This memorandum provides information regarding the purpose of the Draft LBE Ordinance, including reference to materials that support the adoption of the Draft LBE Ordinance.

The City and its Proprietary Departments, such as LAWA, have a proprietary interest in leveraging, to the greatest extent possible, the money it spends yearly contracting with private firms for goods, equipment and services to and for the benefit of the City and its residents. The City and LAWA have a proprietary interest in leveling the playing field among those entities competing for LAWA contracts, to assure the greatest level of competition possible, to decrease local unemployment, and to increase its revenues. Significant benefits are associated with local business preference programs and small business preference programs.¹ These include an increase in local jobs and expenditures in the local private sector. Preference programs in other jurisdictions have been successful where the business conditions approximate the conditions currently being experienced in the Los Angeles area. For example, preference programs work best where unemployment is high. Los Angeles County and City have been slow to recover from the 2008 economic recession and employment growth in the County and City has also been slow.²

¹ *On the Potential Impact to Los Angeles of Local Vendor Preference for City Contracts, V. 2.1*, Charles Swenson, September 18, 2011 at p. 4-5; *Local Purchasing Preferences*, Institute For Local Self-Reliance, Dec. 1, 2008, <https://ilsr.org/rule/local-purchasing-preferences/>; Olivia LaVecchia, *Procurement Can Be A Powerful Tool For Local Economies, But Takes More Than A Policy Change To Work*, Institute For Local Self-Reliance, Aug. 27, 2015, <https://ilsr.org/procurement-more-than-a-policy-change/>; *The Economic Impact of the Small Business and Disabled Veteran Business Enterprise Programs on the State of California*, Sanjay B. Varshney and Dennis H. Tootelian, June 2009; *Fast Facts About California Small Business*, Assembly Committee on Jobs, Economic Development, and the Economy, July 2015.

² *Los Angeles: People, Industry and Jobs*, Institute for Applied Economics, Los Angeles County Economic Development Corporation, May 2016 at pp. 21-22.



Historically, many of the larger cities within the County, especially the City of Los Angeles itself, experience labor costs that are among the highest in the nation. Los Angeles area labor costs are higher than the hourly wages in competing neighboring states. Business space costs in the Los Angeles metropolitan area are even more costly than comparable space in other counties and states. On a national level, Los Angeles is one of the two most expensive metropolitan areas in the western United States in which to do business as a result of the local tax and fee structure.³ All corporations in California are subject to a corporate tax that is among the highest in the nation. These conditions create a very expensive climate in which local businesses must compete. The cost of doing business in Los Angeles is significantly higher than in other cities.⁴ This heightened cost of doing business has an especially significant impact on local small businesses, which often operate with smaller profit margins and fewer financial resources to offset business costs. Local businesses and local small businesses confront cost structures that are weighted much heavier, in terms of labor and costs of doing business, than competitive firms that are located in outlying counties or other states.

The LAWA Draft LBE Ordinance provides a narrowly tailored preference program that is fashioned to encourage businesses to compete for LAWA contracting opportunities, to locate operations in the City, and to encourage existing local businesses and local small businesses to refrain from relocating to different, less expensive areas.

Attached is supplemental information in support of the ordinance for a local small business enterprise program at Los Angeles World Airports.

Should you have any questions or concerns about this matter, please do not hesitate to contact Chief Operating Officer Samson Mengistu at (424) 646-6251.

Thank you for your attention to this matter.

Sincerely,



Deborah Flint
Chief Executive Officer

DF:SM:MO:MSA:CI

cc: Samson Mengistu, Chief Operating Officer
John Tavetian, City Attorney

³ *Cost of Doing Business Survey, Executive Summary* (2013), Kosmont Companies and Rose Institute of State and Local Government (Claremont McKenna College) at pp. 11-12, *Press Release: 2014 Kosmont-Rose Institute Cost of Doing Business Survey*, Kosmont Companies and Rose Institute of State and Local Government (Claremont McKenna College) at pp. 1-2.

⁴ *Id.*