

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

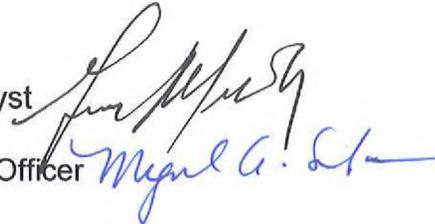
C.F. No. 08-3050
0220-04538-0002

Date: December 11, 2012

To: Honorable Members of the Ad Hoc Committee on Economic Development
Implementation

From: Gerry F. Miller, Chief Legislative Analyst

Miguel A. Santana, City Administrative Officer



Subject: **CONSULTANT ANALYSIS AND RECOMMENDATIONS RELATIVE TO AN
ECONOMIC DEVELOPMENT DEPARTMENT AND RELATED ECONOMIC
DEVELOPMENT NONPROFIT ORGANIZATION TO IMPLEMENT THE CITY'S
ECONOMIC DEVELOPMENT GOALS AND PROJECTS**

SUMMARY

In June 2012, the Mayor and Council approved, in concept, the establishment of an economic development entity comprised of a new Economic Development Department (EDD) and a Nonprofit that would contract with the City (C.F. 08-3050). The EDD and the Nonprofit would carry out the City's economic goals and projects. Under the same Council action, the City Administrative Officer (CAO) and the Chief Legislative Analyst (CLA) were instructed to secure a consultant to assist in the development of the framework and roles of the EDD and Nonprofit. The consultant was requested to provide a report to the CAO and CLA that would be submitted to the Mayor and Council. The attached Executive Summary from the selected consultant, HR&A Advisors, Inc., with support from ICF International and Renata Simril (HR&A Team), summarizes the consultant's findings relative to the following:

- Analyze best practices in the economic development field;
- Evaluate the City's existing economic development structure;
- Propose an economic development entity framework (referred to by the HR&A Team in the Executive Summary as the EDD and Citywide Economic Development Nonprofit (CEDN) ;
- Provide analysis on how the City can integrate asset management activities into its new economic development model;
- Prepare and present an action plan that includes input from stakeholders, experts and leaders in the field of economic development programs and public-private partnerships; and,
- Discuss the next steps necessary for City implementation of the new economic development entity.

It should be noted that the economic development entity proposed by the HR&A Team will not require additional resources at this time. HR&A estimates that the Year 1 Budget for the new EDD would include 137 full-time equivalent (FTE) staff and \$27.5 million, while the CEDN would utilize an approximate set-aside of \$5 million for startup costs. Further details regarding the EDD and

CEDN implementation will be provided by the HR&A Team in their final report that is due to the CAO and CLA on December 14, 2012. Actual costs will be verified by the CAO and CLA in a subsequent report to the Ad Hoc Committee on Economic Development Implementation and during the course of FY 2013-14 Budget Development.

RECOMMENDATIONS

That the Ad Hoc Committee:

1. Instruct HR&A Advisors, Inc. to circulate the final report and conduct outreach to stakeholders for input on the new model and report in 30 days with the results of the outreach;
2. Instruct the CLA and CAO to report on the following: (1) costs related to implementation of the new economic development delivery model; (2) next steps to achieve implementation; and (3) options of creating a Non-Profit.

FISCAL IMPACT STATEMENT

There is no direct impact on the General Fund if the recommendations in this report are approved. The report from HR&A Advisors, Inc. concludes that now is a prudent time to begin implementation of a new economic development delivery system; however, this recommendation does not require additional funds or a net change in staffing at this time. Further discussion relative to potential costs in FY 2013-14 will be provided as part of a CLA/CAO report that will address next steps toward implementation.

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Attachment: Executive Summary

ECONOMIC DEVELOPMENT IN LOS ANGELES: A NEW APPROACH FOR A WORLD CLASS CITY

EXECUTIVE SUMMARY

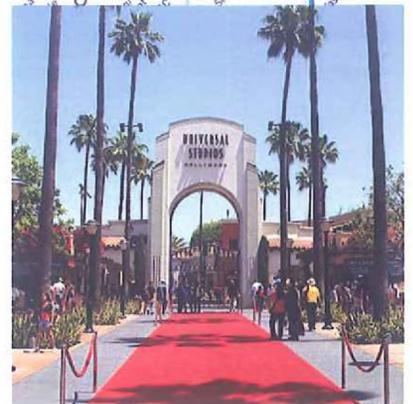
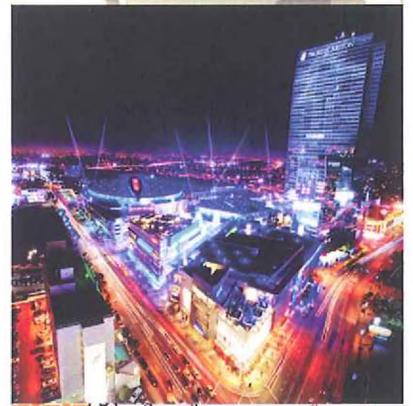
Prepared for:

THE CITY OF LOS ANGELES
OFFICE OF THE CITY ADMINISTRATIVE OFFICER
OFFICE OF THE CHIEF LEGISLATIVE ANALYST

Prepared by:

HR&A ADVISORS, INC.
WITH ICF INTERNATIONAL AND RENATA SIMRIL

December 2012



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“The City’s current economic strategy is disjointed, to the extent that it has one. As a result, economic development tends to occur in a haphazard manner throughout Los Angeles.”

- Chapter 7, Economic Development, Framework Element of the General Plan

“Our corporate leaders want to step up and galvanize the whole city in advancing a unified vision, but they need a better means of engaging the City.”

- Economic development partner

“The stars are aligned for reform, now more than ever.”

- Senior City official

A NEW CITYWIDE PRIORITY FOR ECONOMIC DEVELOPMENT

In June 2012, the Los Angeles City Council and Mayor Antonio Villaraigosa endorsed the concept of establishing a new model for organizing and delivering “economic development services” in the City. This action, based upon the recommendation of the City Administrative Officer (CAO) and the Chief Legislative Analyst (CLA), follows the dissolution of the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA), and the very slow recovery from the 2007-2009 Great Recession. It expresses the Mayor and City Council’s intention to develop the tools and organizational structure necessary to “help the City meet its larger economic goals of creating new jobs, attracting new business and industries, maximizing the City’s assets, and increasing the General Fund revenue.”¹

This report – prepared by HR&A Advisors, Inc. (HR&A), in collaboration with ICF International (ICF) and Renata Simril – draws on the HR&A Team’s three decades of local knowledge, national experience in the economic development field, extensive research and analysis of existing conditions in Los Angeles, as well as an examination of best practices in other major U.S. cities, to recommend a specific framework for a new public-private structure for delivering economic development services, as envisioned by the Mayor and City Council.

This new structure would deliver a comprehensive suite of economic development functions that include strategic planning for growth, real estate-related services, and business and industry-related services. It would advance important projects, including the type once stewarded by CRA/LA, and be provided with the authority, resources and tools to implement a broad citywide economic development strategy.

The new model would include a new Economic Development Department (EDD) to consolidate certain economic development functions from existing City entities as well as to develop new capacities, and a new Citywide Economic Development Nonprofit (CEDN) partner. Both of these new organizations would work in collaboration with other related City departments and the City’s proprietary agencies, and would be

accountable to the Mayor, with appropriate oversight by the City Council. Together, the EDD and CEDN would enable the City to advance strategic real estate and infrastructure developments, maximize the City’s economic development assets, such as underutilized real estate, foster a business-friendly environment and implement strategic policies and programs informed by long-term analytic thinking, including the revitalization of underserved neighborhoods citywide.

Ultimately, this new model would institutionalize a new focus on citywide economic development activities that also incorporates and supports Council District priorities. Once operational, this proposed structure would provide the organizational platform required for the City to create new jobs, attract new business and industries, remain competitive on the global stage in the 21st Century, and increase General Fund revenues.

¹ CAO and CLA, “Policy Options for Citywide Economic Development Functions,” April 17, 2012, Los Angeles City Council File (“C.F.”) 08-3050

ECONOMIC DEVELOPMENT IN LOS ANGELES: EXISTING CONDITIONS AND STAKEHOLDER ASPIRATIONS

The recommendations presented in this report are based upon the HR&A Team's analysis of interviews with more than 80 key stakeholders involved in economic development throughout Los Angeles, from General Managers of departments to business leaders, nonprofits, developers, and community-based organizations; an online survey sent to an additional 130 local stakeholders; detailed analysis of department and agency budget documents, supplemented by additional interviews with department and agency management; and review of ongoing work by local universities and non-profits. The HR&A Team's key findings include the following:

- 1. Los Angeles is a "world-class" City with strong fundamentals for economic development.** Los Angeles is one of the world's great cities with strong economic fundamentals that position it well for future growth. Among the City's many strengths are a strategic location as an international gateway; the largest container port in the U.S.; the largest manufacturing base of any U.S. city; the world's leading cluster for entertainment; a substantial base of small businesses; access to expansive consumer markets; a robust, talented and diverse work force; a very attractive climate; and numerous natural attractions and other quality of life features. However, the City is currently experiencing serious challenges with slow job growth, high unemployment and structural operating budget deficits.
- 2. There is widespread consensus for change.** From the Mayor and City Council to departmental heads, industry leaders and community representatives, there is a broad understanding that the City's current delivery system for economic development is not working efficiently or effectively, and that fundamental change is needed to enable the City to broaden the tax base, foster job creation, and better utilize its significant real estate assets. This conclusion is even enshrined in the Framework Element of the City's General Plan.

3. Los Angeles needs a citywide focus on and prioritization of economic development. One theme that emerged from nearly all stakeholder interviews was that the City of Los Angeles needs an economic development model with a citywide mission that transcends Council District boundaries, while still being responsive to major economic development priorities within Council Districts. The new economic development model must support initiatives that better leverage the Port of Los Angeles, Los Angeles World Airports and the region's expanding rail systems, continue the redevelopment of Downtown and regional centers like Hollywood, support the City's key existing and emerging industry sectors, while also supporting revitalization and business growth in underserved neighborhoods across the City.

4. Elimination of CRA/LA leaves a critical gap in economic development. Although "redevelopment" had a narrower geographic and substantive focus than citywide economic development, the elimination of CRA/LA as of February 1, 2012 struck a significant blow to the City's ability to implement economic development initiatives. CRA/LA was an autonomous, relatively nimble "bricks and sticks" redevelopment agency, with a track record of successful real estate projects; an entity endowed with significant land assembly and financing tools to implement these projects. Although the consensus vision for the new economic development model proposed here is one that is much more substantial than "bricks and sticks" redevelopment, it is also essential that the City fill the void left by the elimination of CRA/LA.

5. The City has a fragmented economic development apparatus that is reactive in nature. The HR&A Team's review of the City's current responsibilities for economic development functions and related resources for delivery revealed an unusually fragmented structure, with a misalignment of resources and responsibilities compared to other large U.S. cities that the HR&A Team reviewed. In short, the entities in Los Angeles that currently have the greatest responsibilities for advancing economic development do not have control of resources commensurate to that mission. For example, the stewardship of surplus and under-utilized City-controlled real estate assets is disconnected from

the City's economic development policy and delivery structure. This misalignment results in significant missed opportunities for the City to catalyze growth in jobs and the tax base.

"We have assets and we have resources, but we lack citywide vision."

- Senior City official

"We need to appreciate that land-based redevelopment is an important component of economic development, but it's only part of a larger need to advance citywide economic priorities."

- Economic Development Partner

ECONOMIC DEVELOPMENT IN MAJOR AMERICAN CITIES: LESSONS LEARNED

The HR&A Team supplemented its experience working on economic development initiatives in cities across the country with additional research into economic development efforts in eight U.S. cities that are generally regarded as being among the “best in class”: Austin, Boston, Chicago, Cincinnati, New York, Philadelphia, San Diego and San Francisco.

Like Los Angeles, each of these cities is unique in terms of governmental structure and competitiveness for industry sectors, and each has created and evolved its own organizational structure for economic development within city government and in partnership with the private sector and distinct communities. Nevertheless, the HR&A Team has synthesized five key findings relating to their approaches to economic development and lessons for Los Angeles:

- 1. Fundamentals** of the local economy and comparative advantages for industry sectors are key drivers of economic development, and more important than the organizational design for delivering economic development services. These include highly developed industry sectors, transportation and utility infrastructure capacity sufficient to support business expansion, available land supply, world-class educational institutions, and a skilled workforce, among others. These fundamentals position a city for competition in the regional, national, and global arenas. Identifying and fully understanding these fundamentals are the essential first steps in maximizing a city’s economic potential. The City of Los Angeles starts with significant advantages in many of these fundamentals.
- 2. Leadership** with a clear vision and priority for citywide economic development also trumps organizational design. Cities that have strong leadership from their Chief Executives (governmental and in some cases major businesses) and that place a consistently high priority on citywide economic development are more successful in attracting new businesses, creating jobs and diversifying the tax base. Los Angeles has sometimes exhibited strong public and private

leadership in this area, but not consistently, and rarely with a citywide focus.

With these factors in place, the specific design of the economic development services delivery structure can be set up for success with:

- 3. Resources**, financial and regulatory, commensurate to the organization's mission, and which provide for authority to manage and develop revenue-generating assets, funding sources, and public financing tools. The land use and business permitting regulatory systems in Los Angeles are difficult to navigate, although some improvements in recent years are notable, and ongoing initiatives for further improvement are promising. Financial resources for economic development, however, are underdeveloped compared with top-performing cities in the U.S., and the recent loss of tax increment financing capability resulting from the elimination of redevelopment has made this situation worse. In particular, best practices demonstrate the consistent use of substantial regulatory tools for economic development functions, as well as the development of stable and sustainable sources of revenue to fund economic development activities.
- 4. Flexibility** within the economic development services organization is essential to its effectiveness, including flexibility to incubate new ideas and projects, and respond to changing priorities and economic needs based on shifting market factors and conditions. Economic development entities must be accountable to elected officials, but benefit from either self-financing or a dedicated revenue stream that places them outside the departmental competition for resources that is part of an annual appropriations process. Indeed, six of the eight case studies presented in this report have such a self-sustaining funding structure. This type of flexibility only existed in partial form in Los Angeles within CRA/LA, and that entity has now been dissolved.
- 5. Human Talent**, including executives, board members and staff, is a critical success factor for best-in-class economic development organizations. Leading economic development organizations foster an organizational culture that attracts and

incentivizes talent, and promotes meritocracy and entrepreneurship. The City of Los Angeles does not have either public or private citywide economic development organizations on par with other leading cities that have been able to consistently draw top-tier talent to deliver economic development services.

These key findings and critical success factors validate the initial judgment of the Mayor, City Council, CAO, and CLA that creation of a new economic development model is imperative to sustain the continued growth and prosperity of the City of Los Angeles – more specifically, a model which employs a new Economic Development Department to provide services as well as oversight for a new, independent and transaction-oriented Citywide Economic Development Nonprofit organization.

A NEW MODEL FOR LOS ANGELES

The HR&A Team recommends a new organizational structure for economic development planning, development and service delivery for the City of Los Angeles consisting of the following components:

An Economic Development Department for the City of Los Angeles (EDD): This new City department would:

- **Provide services and support to the City's businesses, key industries and communities,** including small business services, workforce development, business improvement districts, and industry-specific "service desks" for sectors of strategic importance, creating a central resource for the private sector's engagement with the City;
- **Provide oversight of a new Citywide Economic Development Nonprofit (CEDN)** for transactional, asset management, real estate, and strategic planning services as more explicitly presented in this report. It would also assume management of the contract with FilmL.A., the City's non-profit charged with processing filming permits;
- **Direct the production of a citywide economic development strategy** to frame the City's economic development initiatives, establish priorities, and provide the basis for implementing public-private projects. The strategy should be commissioned by the Mayor, developed in consultation with appropriate public, private and not-for-profit economic development constituencies, produced by the new Citywide Economic Development Nonprofit, and approved by the Mayor and City Council. It should be updated periodically as economic conditions warrant; and
- **Serve as a clearinghouse for the City's distribution of federal and state resources for economic development,** both directly managing certain resources, such as those related to workforce development, and serving as the City's signatory for the use of these resources in specific economic development projects advanced by CEDN.

The HR&A Team estimates that the Year 1 budget for the new EDD would include 137 FTE staff and \$27.5 million, consisting of transferred resources from existing

City departments. This budget is detailed further in Chapter V of the report.

A Citywide Economic Development Nonprofit (CEDN), governed by a majority private sector Board of Directors: This new transaction-oriented service provider to the City, under a contract with the EDD approved by the City Council, would:

- **Manage the City’s strategic real estate assets** with economic development potential, including the disposition of surplus non-governmental properties from CRA/LA, the repositioning of income-producing assets, and redeveloping City-owned or -controlled property not required for municipal use in order to maximize its economic development potential;
- **Manage the City’s off-budget finance entities**, including the Los Angeles Development Fund and the Industrial Development Authority, which would become subsidiaries or affiliates of the new CEDN;
- **Advance major economic development and public-private real estate projects** in order to (1) ensure these projects meet the City’s economic development and revenue goals; (2) oversee and help expedite master planning and entitlements processes for such projects; and (3) negotiate the detailed terms – including the economic, construction, timing, development, and risk management – of economic development transactions to achieve the best outcome for the City at the least risk;
- **Provide expert analysis and negotiate transactions** with private sector parties, subject to appropriate City oversight and approval; and
- **Conduct City-specific economic research and analysis**, produce the citywide economic development strategy at the direction of the EDD, and continually track performance and recommend refinement of the City’s economic development initiatives.

Consistent with similar independent, citywide, nonprofit economic development entities in other high-performing cities, the CEDN would act as an independent agent for the City, pursuant to its contract, and its specific actions would require the formal approval by EDD, subject, where appropriate, to the approval of the Mayor and

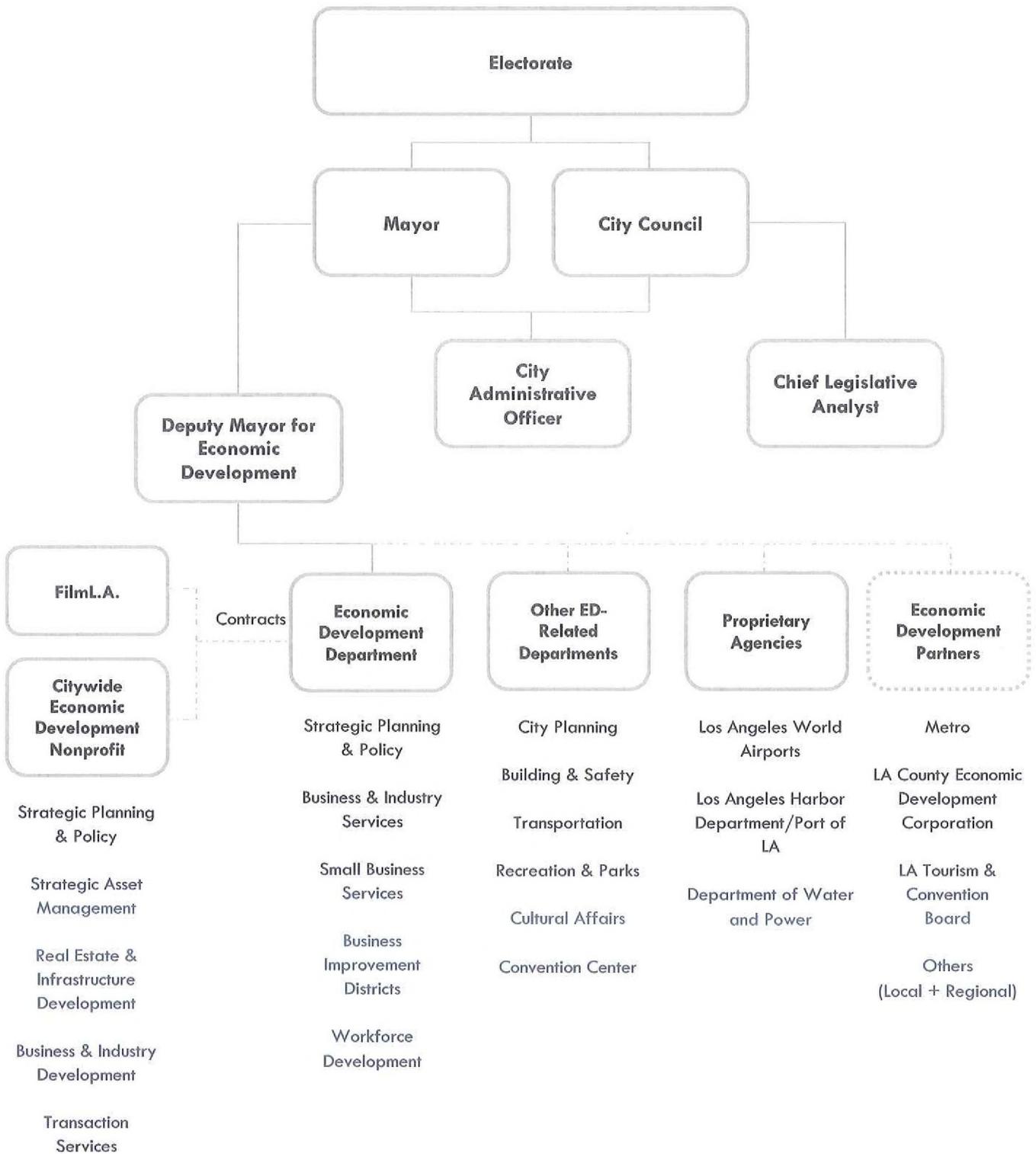
City Council. It would be governed by a Board of Directors with significant expertise and leadership experience in large business management, real estate, finance, law, revitalization of underserved neighborhoods, community organizations, higher education, labor relations, and small business operations.

The HR&A Team estimates that the City should set aside approximately \$5 million for start-up, staff, overhead, and limited project-related costs. This figure is based roughly on first-year operating budgets of similar entities, adjusted to the Los Angeles context. The proposed CEDN budget is further detailed in Chapter V of the report.

A Deputy Mayor for Economic Development who would serve as the City’s economic development officer: This coordinator of citywide economic development efforts on behalf of the Mayor would provide policy direction to the new EDD and CEDN, and coordinate with other economic development-related departments, proprietary agencies, and economic development partners. Specifically, this office of the Mayor would:

- **Provide policy direction to the EDD**, coordinating with the City Council as appropriate;
- **Coordinate the economic development efforts of related departments**, including the Departments of City Planning, Building and Safety, Transportation, Recreation and Parks, Cultural Affairs, and the Convention Center, as well as the City’s proprietary agencies – Los Angeles World Airports, the Port of LA/Harbor Department, and the Department of Water and Power; and
- **Serve as the liaison to the City’s economic development partners**, including regional authorities and organizations, such as Metro, the Los Angeles County Economic Development Corporation, the LA Convention and Tourism Board, and various chambers of commerce.

FIGURE I-1: RECOMMENDED ECONOMIC DEVELOPMENT ORGANIZATIONAL CHART



RECOMMENDED ACTIONS

In order to build this new model, the HR&A Team recommends the following actions:

- **The Mayor and City Council should establish by ordinance the new Economic Development Department of the City of Los Angeles**, appointing a General Manager with extensive public and private business experience and directing him or her to develop the department's specific business plan to provide the services described in this report. The initial annual budget (FY 2013-14) would be based on utilizing resources from existing City entities. Specifically, it would include approximately \$27.5 million in resources transferred from the Community Development Department and from the City Clerk's office for the administration of Business Improvement Districts (BIDs). Through a strategic redeployment of these resources, the General Manager should be directed to continue essential economic development programs that they fund and create new staff positions in the EDD for strategic planning and the development of industry-specific service desks.
- **The Mayor and City Council should approve the concept of contracting certain economic development services to a new Citywide Economic Development Nonprofit established by leaders in the private sector** as described in this report. As noted earlier, the HR&A Team estimates that the City should set aside approximately \$5 million for the first year of the CEDN's operating budget (FY 2013-14). The newly formed CEDN should make a budget request to the City to enable its initial operations and develop a business plan that will enable the new CEDN to become a self-sufficient, income-producing agent for the City over the longer-term. Additional private seed funding, as requested by the Mayor and City Council, should be sought to supplement the City contribution to develop a more robust organization during the initial CEDN contract term. Potential sources of funds for the City's contribution include the following:

1. \$2 million that the Mayor and City Council have already identified for this purpose;
 2. Proceeds from the City's share of additional property tax payments due to the elimination of CRA/LA, estimated to be approximately \$20 million annually;
 3. Grant funding from the Department of Water and Power Economic Development Group;
 4. Revenues available in 2013-14 from the disposition or management of the City's strategic real estate assets; and/or
 5. Additional General Fund sources as deemed appropriate by the Mayor and City Council.
- **The Mayor should issue an Executive Directive to require economic development-related City departments and proprietary agencies to coordinate all economic development activities with a new Deputy Mayor for Economic Development**, similar to the recent Executive Directive for the establishment of a Development Services Collaborative, and should make clear to the City's economic development partners that this new Deputy Mayor will serve as the City's overall coordinator of citywide economic development activities.

These actions will significantly strengthen the City's economic development apparatus, better align responsibilities with resources to be developed over time, and enable the City to track its returns on investment from economic development services.

Throughout the HR&A Team's analysis, interviewees frequently noted that previous economic development reform efforts in Los Angeles over the past 20 years failed due to the absence of sustained citywide political focus, diffuse implementation responsibilities among numerous departments, a laissez-faire approach to the local economy, and the perceived disincentive for mayors to continue previous administrations' efforts. Other complications involved potential organizational and staffing issues related to integrating the former CRA/LA into the City organizational structure.

The recent dissolution of CRA/LA and the winding down of its remaining projects and project areas, as well as ongoing challenges posed by the tepid recovery from the Great Recession, have recalibrated political focus and established a basis for longer term consensus among the Mayor, City Council, and the private and community sectors. This moment appears to be the greatest opportunity in nearly a generation for Los Angeles to finally implement a sustainable economic development delivery system that is worthy of a truly world-class city. Action should be swift and clear.