

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

Date: June 8, 2010

0220-04582-0000

To: Budget and Finance Committee

From: Miguel A. Santana, City Administrative Officer

Gerry F. Miller, Chief Legislative Analyst

Subject: **PROPOSED OFFICE OF ECONOMIC ANALYSIS**

On November 25, 2009, the City Council approved a motion (Garcetti-Smith) requesting our two offices, in conjunction with the City Attorney, to report to the Budget and Finance Committee on a proposal to establish a group that is responsible for economic impact analysis, as well as a process for incorporating the use of that economic impact analysis in legislative decision making (C.F. 09-2722). The motion further stated that the report should be based upon the best practices established by the City/County of San Francisco and should include recommendations on where to locate this new office to ensure independence and objectivity, and to provide input on whether a Charter amendment is required to effectively implement such a program.

City/County of San Francisco Office of Economic Analysis

The San Francisco Office of Economic Analysis (OEA) was created through a ballot measure (Proposition I) in 2004 and is part of the San Francisco Office of the Controller. As noted in the OEA portion of the San Francisco Controller's web site (<http://co.sfgov.org/oea/>), OEA "identifies and reports on all legislation introduced at the Board of Supervisors that might have a material economic impact on the City. It analyzes the likely impacts of legislation on business attraction and retention, job creation, tax and fee revenues to the City, and other matters relating to the overall economic health of the City." The San Francisco measure also outlines a requirement for, and elements to be included in, an economic development plan to be prepared and updated by the Economic and Workforce Development Department in conjunction with OEA.

OEA is staffed by two full-time, qualified economists (one Chief Economist and one Senior Economist) who review each Board of Supervisors' agenda and identify those items on which an economic analysis will be performed by applying four factors as follows. The legislation must: (1) have a real and clear effect in law and not be a vague statement of policy or a new governance structure with an indeterminate effect, (2) have a material impact that exceeds \$10 million, (3) not contain an appropriation, which applies a fixed amount of City revenue to different purposes, and (4) represent new policy. The Office has prepared an average of 13 economic impact reports per year on legislation encompassing area plans, the Mayor's green building requirements, tax credit proposals, and various other matters.

Once an item is identified for economic analysis by OEA, action on the item is withheld for one month for the economists to perform the economic impact analysis and report to the Board. If the Board of Supervisors considers an item before the economic analysis is complete, then the item would need to be reconsidered in conjunction with the analysis. The OEA does not typically make recommendations but instead identifies risk factors and mitigation measures, which the Board must consider but is not obligated to approve or follow. The Office also prepares monthly "economic barometer" reports. According to the Chief Economist at the OEA, that Office is part of the San Francisco Controller's office to provide the greatest degree of independence and credibility to the analysis. The San Francisco Controller is appointed to a 10-year term of office.

Los Angeles City Options

Several options exist for the City to implement a program similar to the San Francisco OEA:

1. **Controller's Office:** An OEA could be located within the Controller's Office, similar to San Francisco. The Los Angeles Controller is an elected official responsible for being the auditor and general accountant of the City and for exercising general supervision over the accounts of all offices, departments, boards and employees of the City charged in any manner with the receipt, collection or disbursement of the money of the City. The City Attorney advises that additional powers and duties for the Controller may be prescribed by ordinance. However, given that the Los Angeles City Controller is elected rather than appointed, we believe that the OEA would be more appropriately housed in an appointed office.
2. **Office of the City Administrative Officer (CAO):** An OEA could also be located within the CAO, which is an independent office that reports to both the Mayor and Council. The CAO is primarily responsible for keeping the Mayor and the Council advised of the condition, finances and future needs of the City, and making recommendations as appropriate; assisting in the preparation of the annual budget in accordance with policies prescribed by the Mayor; and preparing reports on revenue and costs and, throughout the year, conducting studies and investigations that will assist in the preparation of the budget. While technical in nature and highly specialized, identification of economic impacts of legislative proposals would be a useful tool and an appropriate element of the CAO's responsibilities in anticipating and projecting revenue and budgetary impacts.
3. **Economic Development Department:** Alternatively, an OEA could be located within the proposed Economic Development Department. This new department would be responsible for a broad array of economic development within the City. Identification of legislative actions that may have an impact on the economic health of the City would be an important component of economic development. Further, since this department would be new, it could readily incorporate this function as part of its duties and operations. Since the department would be created by ordinance, the function could be authorized in that ordinance.

Given the severity of the City's current economic crisis and the continuing prospect of employee layoffs, any option that involves adding staff or increasing General Fund expenditures would have to be considered in the context and constraints of our current budget crisis. Given the highly specialized nature of economic analysis and the training required to perform that function, additional resources – either with City personnel or independent contractors – would need to be added to the Offices of the Controller or the CAO. Since the Economic Development Department would be new, the function could be added to the department's mandate and absorbed within the resources allocated. Consequently, should the Mayor and Council decide that establishing such an Office is warranted at this time, we propose that the function be made part of the new Economic Development Department. As a new department, the function can be added utilizing the existing City economic development resources that would be consolidated into this new Department.

Proposed Pilot Project

In the event that the Mayor and Council decide not to establish an Economic Development Department at this time, the economic analysis function could be implemented as a pilot project on an interim basis by the CAO using as needed contract services from a panel of pre-qualified firms. Should the Council ask for an independent economic analysis of a particular matter, the CAO and CLA would determine the scope and estimate the costs. The Council would then direct the CAO to facilitate a contract to conduct the analysis and identify the funding to have the consultant perform the work. We note that funding has been set aside for this purpose by the Council's adoption of a motion (Garcetti-Smith) during its deliberations on the 2010-11 City Budget instructing the Community Redevelopment Agency to set aside \$250,000 in Council District 13 Assembly Bill (AB) 1290 funds to be used if there is created an Economic Analysis function within the Office of the City Administrative Officer. The time needed to perform the analysis and the timing of the report could be addressed when Council acts on the contract.

Criteria

The process for incorporating the use of regular economic impact analysis in legislative decision making would depend upon the criteria applied to those legislative proposals subject to economic impact analysis. The process and criteria used by the San Francisco OEA appears to be an appropriate model that can be adapted to the City's needs and incorporated in an ordinance that establishes a Los Angeles Office of Economic Analysis. As an alternative to using the San Francisco criteria, the City Council or a Council Committee could request that economic analysis be performed on an as needed basis. During the pilot project, economic analysis would be performed as requested. In either case, the economic analysis criteria and function would not be applicable to tax proposals being placed before the voters inasmuch as those proposals involve political processes and also because they are usually, if not always, accompanied by independent economic analyses.

Implementation

According to the City Attorney, a Charter amendment would not be required to implement this proposal. The Charter allows functions to be added to offices and departments

by ordinance. As a result, an Office of Economic Analysis could be added to the Controller's Office, the CAO, or the new Economic Development Department by ordinance.

RECOMMENDATIONS

That the Council:

1. Pending final action on the creation of the Economic Development Department, establish an Office of Economic Analysis as a pilot project in the Office of the City Administrative Officer (CAO), and authorize the CAO to:
 - (A) Prepare and release a Request for Qualifications to establish a panel of qualified as-needed consultants to perform economic analysis;
 - (B) Establish the panel and use the qualified consultants to perform independent economic analysis of legislative proposals as requested;
 - (C) Request funding as needed for approved studies from \$250,000 in Council District 13 AB 1290 funds set aside to be used if there is created an Economic Analysis function within the Office of the City Administrative Officer; and
 - (D) Report to the Council one year from the date of Council approval of the pilot on the number of studies conducted, the amount expended on those studies, and impacts of completed studies.
2. As part of the deliberations on the creation of a new Department of Economic Development, consider establishing an Office of Economic Analysis within that Department, with the functions, duties and criteria for its operation to be similar in substance to those of the San Francisco Office of Economic Analysis.

FISCAL IMPACT STATEMENT

Adoption of the recommendation to establish a pilot project to perform economic analysis as requested may have an impact on the City General Fund at such time as an appropriation would be needed to retain a consultant. The recommendation that the Council and Mayor consider establishing an Office of Economic Analysis as part of the creation of a new Department of Economic Development would not have an impact on the General Fund, particularly insofar as the function would be performed by utilizing the existing economic development resources which would be consolidated into this new Department. We note, additionally, that during the recent deliberations on the Budget for 2010-2011, the Council adopted a Motion (Garcetti-Smith) which instructs the Community Redevelopment Agency to set aside \$250,000 in Council District 13 AB 1290 funds to be used if there is created an Economic Analysis function within the Office of the City Administrative Officer.

09-2722

MOTION

JOBS & BUSINESS DEVELOPMENT

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The nation continues to face tough economic times, and while third quarter reports of the nation's economy show a 3 percent growth, unemployment in the City of Los Angeles has now reached 14 percent. The City is currently considering additional business tax reforms, programs and policies that create jobs and attract businesses. The establishment of a Green Corps to provide energy audits, as well as the creation of an Economic Development Department are two examples of the programs that the City is currently working on to create jobs and attract businesses. Over the next few years, the City must continue to respond in a manner that focuses on strengthening its foundation to better compete for new private-sector investment; retain current businesses; create good-paying jobs for Angelenos; and establish a global reputation as a "business-friendly" city.

As the City of Los Angeles develops policies to achieve these economic goals, it is increasingly important to understand the impact of new legislation on business attraction and retention, job creation, tax and fee revenues to the City as well as the overall economic climate. Currently, there is no requirement that the City conduct an Economic Impact Analysis to objectively evaluate new legislation. Having this information during the legislative process will improve the overall quality of legislation by identifying policies that have an impact on City revenue.

The City/County of San Francisco established an Office of Economic Analysis (OEA) in 2004. Staffed by two economists, the OEA evaluates the impact of introduced legislation that meets threshold criteria for their review. The staff also prepares a Monthly Economic Barometer, Quarterly Economic Briefing and supports the City's economic and workforce development policy efforts. The City of Los Angeles should refer to this model as it looks to develop it's own economic analysis group, and specifically look to house this either in the Chief Legislative Analyst's Office or in the City Administrative Officer's Office.

I THEREFORE MOVE that the Chief Legislative Analyst and the City Administrative Officer, in conjunction with the City Attorney, report back to the Budget & Finance Committee within sixty days on a proposal to develop a group that is responsible for economic impact analysis, as well as a process for incorporating the use of economic impact analysis in legislative decision making. This report should be based upon the best practices established by the City/County of San Francisco and also include recommendations on where to locate this new office to ensure independence and objectivity.

I FURTHER MOVE that the City Attorney and the Chief Legislative Analyst be requested to provide input on whether a Charter amendment is required to effectively implement such a program.

Presented by: Eric Garcetti
ERIC GARCETTI
Councilmember, 13th District

Seconded by: Greg Smith
GREG SMITH
Councilmember, 12th District

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