

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: December 9, 2015

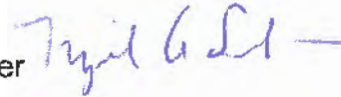
CAO File No. 0220-01024-2752

Council File No. 12-1549-S4

Council District: All

To: The Mayor  
The Council

From: Miguel A. Santana, City Administrative Officer



Reference: Economic and Workforce Development Department Transmittal dated September 1, 2015

Subject: **REQUEST FOR \$1 MILLION TRANSFER FROM THE UNAPPROPRIATED BALANCE FOR ASSET MANAGEMENT, NEW POSITION AUTHORITIES AND OTHER ECONOMIC DEVELOPMENT-RELATED ACTIVITIES**

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### SUMMARY

In a transmittal dated September 1, 2015, the Economic and Workforce Development Department (EWDD) requested Mayor and Council approval to transfer \$1 million set aside for Citywide economic development and asset management in the 2015-16 Unappropriated Budget to their budget. This request included a number of implementing actions for the use of these funds to enhance EWDD's economic development and asset management functions. Through a combination of resolution authority for three new positions (one Industrial Commercial Finance Officer II, one Property Manager II and one Property Manager III) and consultant services, EWDD would utilize the funds primarily for planning, economic analysis, system development, real estate and escrow services. The balance would be used for related expense and lease costs. Our Office supports EWDD's increased role and evolving responsibilities in maximizing the City's economic development efforts and concurs with a majority of the requests as outlined further in this Summary, with minor exceptions as noted in the Findings section of this Report.

The EWDD's requested authorities include: 1) the establishment of the Los Angeles City Industrial-Commercial Revolving Loan Fund and receipt and appropriation authority over related litigation settlement funds; 2) requests for the City Attorney to amend existing ordinances to expand the eligible use of Enterprise Zone Tax Credit (EZTC) Surplus Program revenue and also bypass the City Surplus Property process for federal grand funded foreclosed properties; 3) authority to issue Requests for Qualifications (RFQs) to create pre-qualified lists or consultant services related to economic development activities; 4) a new budget request for \$300,000 for contract appraisal services; 5) receipt and appropriation of \$50,000 from the Harbor Department for site consultant services for the San Pedro Waterfront area; and 6) blanket contract authority to hire consultant and service providers for asset management.

We recommend approval of the transfer of the \$1 million for economic development asset management

from the Unappropriated Balance to EWDD, and support the request for three new resolution authority positions for Citywide economic development asset management activities for Fiscal Year 2015-16, subject to review and allocation by the Civil Service Commission as to classification and the City Administrative Officer (CAO) Employee Relations Division as to pay grade determination. We also recommend approval of the instructions to City Attorney to amend existing Ordinances in order for EWDD to utilize EZTC funding for economic development activities, and to dispose of qualifying forfeited assets to fulfill federal obligations. This Report also recommends approval of authority for EWDD to receive and appropriate \$50,000 from the Harbor Department for funding the site consultant study for the San Pedro Waterfront project.

Our Office supports approval of EWDD's request to release RFQs for consultant services for economic development asset management needs, subject to City Procurement, contracting and Charter Section 1022 requirements. We also support establishment of a new fund in order to track receipts of litigation settlement funds of the previous Citywide Industrial Commercial Revolving Loan Program Fund. In order to preserve the Council and Mayor's ability to oversee and review the Department's programs, we recommend that EWDD report back regarding RFQ results and authority to contract. EWDD should also report back, with the assistance of the City Attorney, regarding an evaluation of the City's management and funding options for a long-term commercial and revolving loan fund, once issues with the U.S. Department of Commerce Economic Development Administration have been resolved. Please see the Findings section of this Report for additional information.

## RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Authorize employment authority via Council resolution for three new positions at the Economic and Workforce Development Department (EWDD), effective January 1, 2016 through June 30, 2016, for asset management and property development responsibilities as follows, subject to allocation by the Civil Service Commission and pay grade determination by the City Administrative Officer (CAO) Employee Relations Division:

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

2. Authorize and instruct the General Manager, EWDD, or designee, to:
  - a. Report back in 30 days, with the assistance of the City Attorney, with an evaluation of the City's management and funding options for a long-term commercial and industrial revolving loan fund, including recommendations for the disposition of the settlement funds recovered for the former Citywide Industrial Commercial Revolving Loan Program Fund under Title IX of the Public Works and Economic Development Act of 1965;

- b. Issue Requests for Qualifications (RFQs) to create prequalified lists for on-call consultant services in accordance with City Procurement and Charter Section 1022 requirements, subject to approval by the City Attorney as to form, and report back to Mayor and Council with the results, and request authority to execute contracts. Anticipated service procurements related to asset management and economic activity include: Architectural Services for the Façade Program, Appraisal and Appraisal Review Services, Title and Escrow Services, Brokerage Services, Environmental Review and Relocation;
3. Request the City Attorney to amend Ordinance 176632 on the establishment of the Enterprise Zone Tax Credit Voucher Special Revenue Fund 48L (Fund) 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;
4. 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;
5. Authorize the General Manager, EWDD, or designee, to receive and deposit up to \$50,000 received from the Los Angeles Harbor Department into Miscellaneous Fund No. 45L for consulting services;
6. Authorize the Controller to establish a new account 22M795, Port of LA, within EWDD's existing Miscellaneous Fund No. 45L, and appropriate up to \$50,000;
7. Authorize and instruct 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 from the Unappropriated Balance Fund No. 100/58, Account 580192, Economic Development Asset Management, to the newly established Economic Development Asset Management Fund No. XXX;
  - c. Establish new account 22M791, 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:

<b>Account No.</b>	<b>Account Name</b>	<b>Amount</b>
<b>From:</b>		
22M791	Economic Development Asset	\$241,836

	Management-UB	
<b>To:</b>		
22M122	EWDD	\$241,836

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

Account No.	Account Name	Amount
001010	Salaries-General	\$193,214
003040	Contractual Services	7,692
006030	Lease	40,930
	<b>Total</b>	<b>\$241,836</b>

8. Authorize and instruct the Controller to:

- a. Establish an interest-bearing fund entitled "LA City Industrial-Commercial Revolving Loan Fund XXX" to be administered by EWDD to track receipts and disbursements related 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 \$96,316;
- 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 account XXX Consulting and Professional Services 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 up to \$25,000 for related consultant and professional services. Appropriations over \$25,000 and additional appropriation accounts require further Council approval;
- e. Transfer cash, appropriations, encumbrances, expenditures and other financial transactions 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; and,

9. Authorize the General Manager, EWDD, or designee to prepare Controller instructions and/or make any necessary technical adjustments consistent with Council and Mayor action on this Report, subject to approval of the CAO, and instruct the Controller to implement those instructions.

## FISCAL IMPACT STATEMENT

There is no additional impact to the General Fund in Fiscal Year 2015-16 if the recommendations in this Report are approved. There is a potential impact to the General Fund in FY 2016-17 in the amount of \$386,426 and annually thereafter for resolution authority position salaries, and an undetermined amount

for future asset management contractual services and lease costs. The recommendations in this Report do not comply with City Financial Policies in that one-time funding is being used to fund ongoing expenditures. Funding to continue the program beyond the current fiscal year will depend on the priorities and funding identified by the Council and the Mayor for the 2016-17 Budget.

## FINDINGS

### 1. Basis for Report

Funding in the amount of \$1 million for Citywide economic development asset management activities was included in the Fiscal Year Adopted Unappropriated Balance (UB). Mayor and Council approval is required to transfer these funds to the Economic and Workforce Development Department (EWDD). Pursuant to their transmittal dated September 1, 2015 (C.F. 12-1549-S4), EWDD seeks Mayor and Council approval for an array of various actions related to economic development activities, including new position requests.

### 2. Requests for Transfer of Asset Management Funding

The EWDD requests the transfer of \$1 million for Citywide Economic Development Asset Management from the 2015-16 Unappropriated Balance (UB) to the Department. EWDD proposes six months funding (January 2016 through June 2016) for property analysis, development and disposition activities in the Department, including funding for three new resolution authority positions, and partial funding for eight current existing program and accounting positions, seven of which are filled and one is vacant. EWDD also requests a portion of these funds to defray various Department administrative support and executive salary costs and lease costs, and to fund various contractual services related to economic development.

#### *Summary of UB Transfer and Appropriations (Six Months) as Requested by EWDD*

Funding for Three New Requested Positions	\$185,989
Partial Salary Funding for Eight Existing Program and Accounting Positions	128,346
Partial Salary Funding for Existing Executive and Support Positions	103,727
As-Needed Salaries	1,834
Contractual Services Appropriation	7,692
Contractual Services Authority Requested for Economic Development Consultants (Maximum)	527,420
Non-Salary Administrative Expense	4,062
Lease Cost	40,930
<b>Total:</b>	<b>\$1,000,000</b>

The EWDD requests appropriations of the \$1 million as shown above and approval for contractual services authority for economic development related consultants in an amount not to exceed \$1 million to be funded by various sources including the \$527,420 shown above. Our Office supports the transfer of the \$1 million to EWDD. However, at this time, our Office recommends approval of appropriations in the \$1 million as shown in Recommendation 7e on page 4 of this Report. Our recommended appropriations are \$193,214 for new position salary funding as discussed in Findings Section 2 below, \$7,692 for contractual services and \$40,930 for lease costs. We recommend minimizing appropriations

from one-time funding for on-going costs by not funding current on-going position salaries from the UB asset management funds. In order to preserve Council and Mayor oversight, we recommend that EWDD report back with more specific information about funding economic development contractual services from the UB asset management funds, subject to City contracting requirements and procedures, as well as expense appropriation needs.

### 3. Staffing Request

The Department requests resolution authority and six-months funding for three positions, one Industrial and Commercial Finance Officer II, one Property Manager II and one Property Manager III, for the current year. With the dissolution of the Community Redevelopment Agency/Los Angeles (CRA) in 2012 and the formation of EWDD in FY 2013-14, EWDD acquired new and developing responsibilities in Citywide economic development activities. EWDD is currently managing various stages of property analysis and disposition for both City-owned assets and former CRA economic development properties. Funding for asset management activities related to Citywide economic development was budgeted in the FY 2015-16 UB. The Department indicates that while consultants have been engaged to assist in aspects of asset management and property development work, EWDD lacks adequate staff, especially those with technical expertise, to manage the full portfolio of various projects. The Department states that the duties of the requested new positions will include coordination of project financing, loan development and underwriting, property analysis and various other areas of project management, including community engagement.

The salary costs, as estimated by our office, are as follows.

<u>No</u>	<u>Class Code</u>	<u>Class Title</u>	<u>Annual Salary</u>	<u>FY 2015-16 Salary (Six Months)</u>
1	9191-2	Industrial and Commercial Finance Officer II	\$112,940	\$56,470
1	1964-2	Property Manager II	131,293	65,647
1	1964-3	Property Manager III	142,193	71,097
<b>Total:</b>	<b>3</b>		<b>\$386,426</b>	<b>\$193,214</b>

Currently, there are 35 allocated positions for the Economic Development program in EWDD. EWDD intends to request continuation of the three new requested positions in the next fiscal year and on an ongoing basis due to asset management responsibilities. The responsibilities of the Industrial and Commercial Finance Officer II (ICFO II) include loan and financing development, underwriting of major projects, various transaction negotiations, compliance with public funds requirements, and project management including approval of final plans and specifications, and compliance and public benefits monitoring. The ICFO II's duties also include economic development program and policy development, including public-private partnerships, and program design and procedures. The responsibilities of the Property Manager II include monitoring joint development of mixed public/private use sites, overseeing tenant and lease issues, and negotiation of strategic acquisitions, such as easements, for economic development. The Property Manager II will also oversee property disposition and management,

including review of appraisals and facility maintenance and improvements. The duties of the Property Manager III include leading Property Development and Disposition efforts, including administrative instruction and oversight for a diverse set of real estate projects, supervision of staff, and community and public relations regarding the City's economic real estate activities.

We recommend the transfer of the \$1 million from the UB to EWDD for Citywide economic development Asset Management activities in FY 2015-16, and approval of the three new resolution authority positions for EWDD's Asset Management activities, subject to review and allocation by the Civil Service Commission as to classification and the CAO Employee Relations Division as to pay grade determination.

#### 4. Funding for San Pedro Waterfront Real Estate and Market Feasibility Study

On January 28, 2015, the Council authorized the Harbor Department and EWDD to retain a consultant to conduct a Real Estate and Market Feasibility Study (Study) for publically owned sites in the San Pedro Waterfront area to evaluate potential redevelopment opportunities (C.F. 14-1330). On June 10, 2015, the Council authorized the Harbor Department to transfer \$30,000 to EWDD to fund this Study (C.F. 14-1330-S1). EWDD requested bids from the list of the CAO Asset Management Strategic Planning prequalified consultants. A City evaluation panel reviewed the three proposals received and selected Economic and Planning Systems as the most responsive bidder, with a total contract cost of \$100,000, based on the City's requested services. On October 20, 2015, Council approved a report from the Municipal Facilities Committee recommending the transfer of \$50,000 from the CAO to EWDD for the cost of the Study, with the remainder to be funded by the Harbor Department (C.F. 14-1330-S2.). EWDD states that \$30,000 has been transferred by the Harbor Department for the Study. The balance of the remaining \$20,000 cost will be funded by the Harbor Department. We recommend approval of EWDD's request to make account transfers and appropriation for the funds from the Harbor Department.

#### 5. New Proposed Revolving Loan Fund

The EWDD's Transmittal includes requests to establish a new account for a revolving business loan program, the Los Angeles City Industrial-Commercial Revolving Loan Fund (Revolving Loan Fund) and to approve authority to deposit and transfer funds received by the City as part of a litigation settlement (C.F. 15-0356) to the City. EWDD also requests authority to make appropriations on an "as needed basis." As of November 10, 2015, EWDD has received settlement funds in the amount of \$96,316.

In the 1970s and again in the 1990s, the City received grant funding for a revolving loan fund from the U.S. Department of Commerce Economic Development Administration (EDA). The federal grants capitalized the City's Citywide Industrial Commercial Revolving Loan Program Fund (RLF) under Title IX of the Public Works and Economic Development Act of 1965. The purpose of the RLF was to foster economic development in designated underserved areas through small business investment lending, public infrastructure lending and job creation. The total cumulative federal award was \$2,460,000 through the 1990s. In the early 1980s, the City created and then contracted with a non-profit entity, the Los Angeles Local Development Corporation (LALDC), to manage the RLF as the City's Operating Agency in compliance with the applicable federal government codes, regulations, and directives. In 2003, the final Operating Agency Contract (City Contract C-99342) between the City and the LALDC



expired. LALDC remained in possession of all RLF assets and did not submit reports to the City nor the EDA.

Pursuant to the Mayor's Office, in 2006, the EDA placed the City on notice of material noncompliance of the federal program regulations. The City retained independent accountants to construct the required financial reports and negotiated a temporary regulatory compliance extension with EDA. In 2011, after protracted discussions with LALDC, the City filed a Civil Complaint to recover the City and federal assets in the RLF. After a judicially ordered settlement conference, the lawsuit was settled in February 2015. RLF assets in the settlement package total approximately \$900,000, consisting of the assignment of two loans and the remainder in cash in an amount of approximately \$75,000 (as adjusted through calculation of the final principal balance of the two loans at the time of assignment).

The City is currently working with the EDA to resolve its outstanding liability under the original RLF grants. Pending the results of these discussions, EWDD will be responsible for managing the recovered RLF loans and cash balances and providing the City and EDA with auditing and related professional services required to resolve the City's outstanding grant liability and determine the long-term future of the RLF program.

We recommend approval of the request to create a separate fund to enable EWDD to track the settlement receipts and that, upon resolution of outstanding grant issues with EDA, that EWDD report back to Council and Mayor with an evaluation of the City's management and funding options for a long-term commercial and industrial revolving loan fund, including recommendations for the disposition of the current recovered RLF assets.

#### 6. Property Appraisal Contract Funding

Separate from the request to transfer the \$1 million in UB Asset Management funds, the Department requests new additional funding in the amount of \$300,000 for consultants to conduct property appraisals to determine the fair market value of former Community Redevelopment Agency/Los Angeles (CRA) economic development properties. The City has entered into Option Agreements with the former CRA regarding ten properties (C.F. 14-0425) to market for economic development, and pursuant to the Option Agreements, the City is required to pay for appraisals to determine fair market value of the properties. EWDD estimates the cost of the appraisal per property as \$30,000, and projects that five properties require appraisals in FY 2015-16, for a total estimated cost of \$150,000 in the current fiscal year. We recommend that EWDD fund property appraisal consultant costs from the \$1 million in asset management funding recommended for transfer from the UB to EWDD in this Report, subject to City contracting requirements and procedures. We will monitor expenditures from the transferred funds throughout the balance of the year and work with EWDD to address any funding issues if necessary.

#### 7. Requests for Amendments to Ordinances by City Attorney


The EWDD requests that the City Attorney be requested to amend Ordinance 176632 regarding EWDD's eligible use of the remaining balance of revenue previously collected as a portion of fees from the terminated Enterprise Zone Tax Credit (EZTC) Voucher Program. According to EWDD, the Department's agreement with the State of California allows for the funds to be expended on

administrative and program costs for economic development (including salaries and contractual services) in the former Enterprise Zones while the current language in the Ordinance limits the use of EZTC revenue to the processing of the tax credit vouchers only. EWDD's Adopted FY 2015-16 Budget includes \$1.6 million in EZTC funds for salary and lease costs for close out activities related to the former EZTC program.

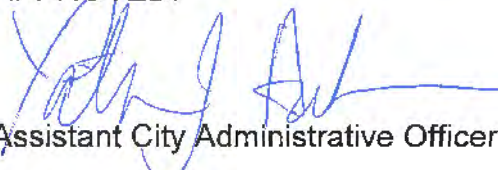
The EWDD also requests that the City Attorney be requested to amend Ordinance 182500, which established EWDD, to grant authority to EWDD to bypass the City Surplus Property process for federal grant funded foreclosed properties. EWDD's lending programs utilize federal funding to provide financing for various real estate and business projects. In the event of default by developers and other recipients, EWDD may exercise the ability to call on pledged securities in order to fulfill repayment obligations to the U.S. Department of Housing and Urban Development (HUD). This requires that EWDD be able to dispose of foreclosed or defaulted properties at fair market value. We recommend approval of the request to City Attorney to amend the Ordinances in order to enable EWDD to fulfill its economic development responsibilities.

#### 8. Request for Approval to Issue Requests for Qualifications for Consultant Services

The EWDD requests authority to issue Requests for Qualifications (RFQ) in order to establish prequalified lists of consultants for a variety of economic development services. The Department states that to date, it has utilized consultants on an as-needed basis from other City Departments' prequalified lists, but due to the unique requirements of EWDD's economic development programs and responsibilities, EWDD has indicated a need to establish its own lists of consultants. The prequalified consultant services are proposed to include services for the façade improvement program, environmental review, relocation, real estate and lending functions. We recommend approval of authority for EWDD to issue these RFQs, subject to City Procurement and Charter Section 1022 requirements, and subject to approval by the City Attorney as to form. While the Department had sought authority to also execute contracts with selected providers, we recommend instead that EWDD report back to Mayor and Council with the results of the RFQs, and request Council and Mayor authority to execute the contracts. Council and Mayor approval will be required to extend the life of the RFQs.

by:   
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