

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

Prepared for:

THE CITY OF LOS ANGELES

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

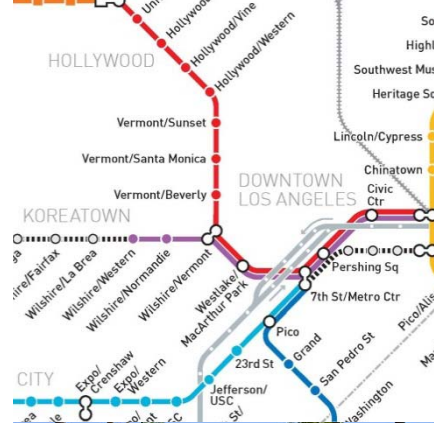
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## **I. EXECUTIVE SUMMARY**

“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.”<sup>1</sup>

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 21<sup>st</sup> Century, and increase General Fund revenues.

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<sup>1</sup> 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 161 City departments and 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

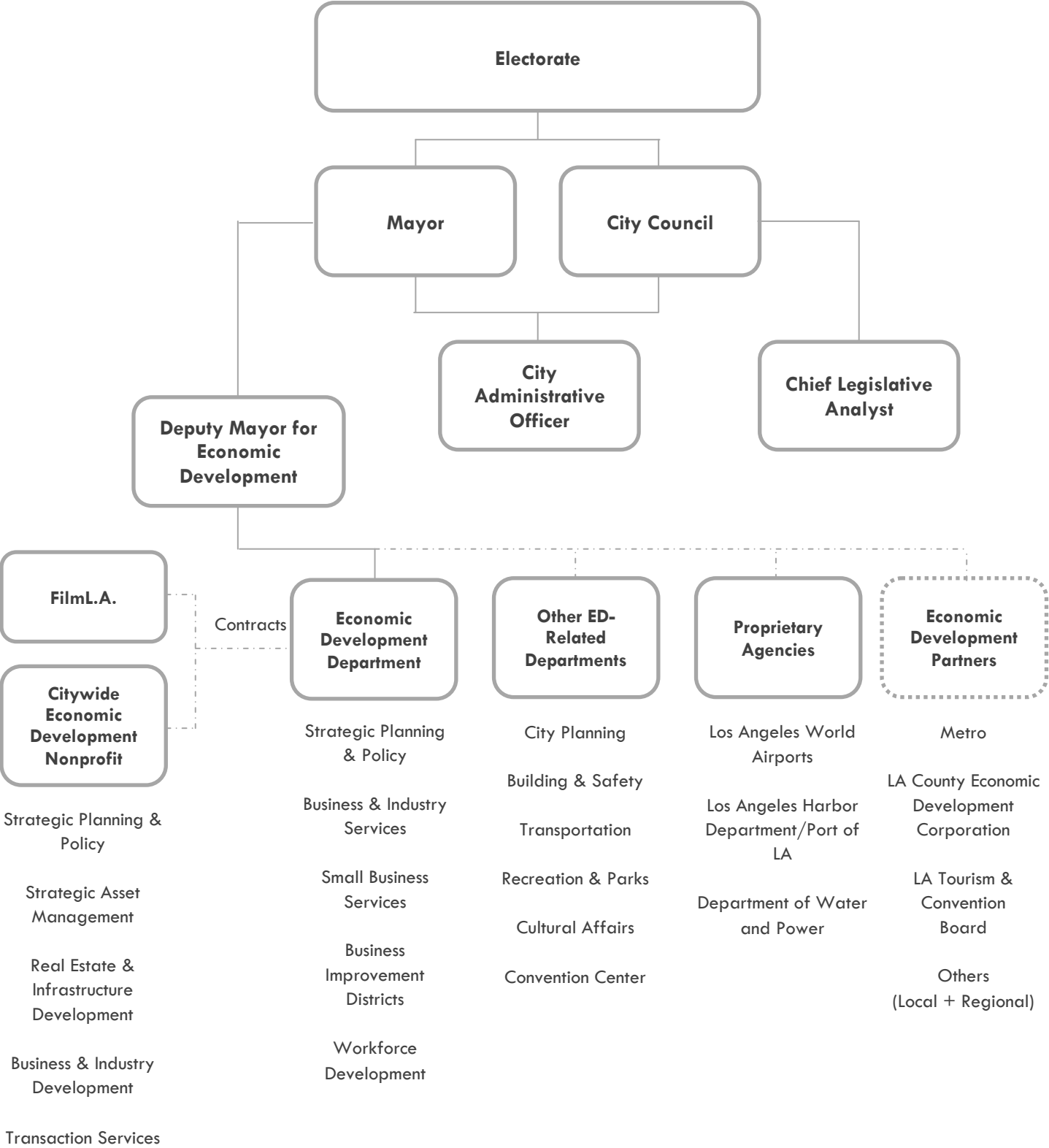
City Council. It would be governed by a Board of Directors with significant expertise and leadership experience in large business management, real estate, finance, law, revitalization of underserved neighborhoods, community organizations, higher education, labor relations, and small business operations.

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), based on first year budgets for similar entities. 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.



## **II. PURPOSE AND SCOPE**



## PROJECT CONTEXT

In the wake of the recent State-mandated dissolution of the City's former CRA/LA, and in the midst of a slow recovery from the 2007-2009 Great Recession, the City of Los Angeles launched the latest and most focused effort to better organize its programs, policies, regulations, investments and services to support the growth and evolution of the City's economy, with the goal of enhancing the financial resources of city government, thereby improving the well-being and quality of life of its residents.

With the dissolution of CRA/LA looming on February 1, 2012, the City Council adopted a series of resolutions in January to initiate a new approach to economic development. These actions included requests that the CAO and CLA report to the City Council on:

- Establishing a new Economic Development Department (EDD) for the City of Los Angeles;<sup>2</sup>
- Current economic development functions conducted by the City compared to alternative models on how the City can conduct economic development in the future, including, for example, consolidation of City departments and creation of a nonprofit entity, among other options;<sup>3</sup> and
- Models for the delivery of economic development services that are utilized in other major cities across the United States, with a particular focus on the model of an independent, nonprofit economic development corporation – a Citywide Economic Development Nonprofit (CEDN), funded by a dedicated revenue stream, and the City of Chicago's "mega department" that combines the functions of housing, planning, workforce development and economic development.<sup>4</sup>

After reviewing current City economic development activities, consulting with the Mayor's Office and a general review of how other cities have organized their economic development activities, the CLA and CAO recommended proceeding with a combination of a new economic development department working in tandem

with a new nonprofit economic development corporation, similar to that of New York City. The CAO and CLA concluded that creation of an EDD/CEDN model would provide greater flexibility and an enhanced focus on citywide economic development, which would improve the City's ability to achieve its goals of job creation, economic equality and revenue generation.<sup>5</sup>

On June 20, 2012, the City Council supported, in concept, the establishment of an economic development structure comprised of a new EDD, and a CEDN that would contract with the City. Together, these organizations would be responsible for implementing the City's economic objectives and carrying out its projects.<sup>6</sup>

Under the same Council action, the CAO and the CLA were instructed to secure a consultant to assist in the development of the framework and roles of the EDD and CEDN.

Following a competitive selection process, the CAO and CLA engaged the HR&A Team to document and assess best municipal economic development practices in the United States, provide an analysis of the City's current economic development apparatus, evaluate the approach approved in concept by the Mayor and City Council, and make specific recommendations for the most appropriate approach to organizing functional activities and financial resources required for delivering economic development services in the City of Los Angeles. The HR&A Team commenced work on September 20, 2012.

On November 7, 2012, the City Council approved a motion by Council President Herb J. Wesson, Jr., to create an Ad Hoc Committee on Economic Development Structure to oversee and coordinate the City's various efforts in establishing and implementing economic development structures and initiatives.

<sup>2</sup> Smith-Cardenas-Zine, Los Angeles City Council File ("C.F.") 08-3050.

<sup>3</sup> Wesson-Zine, January 11, 2012, with a concurring recommendation of the Mayor, dated January 12, 2012, C.F. 12-0049.

<sup>4</sup> Perry-Rosendahl, January 25, 2012, with the concurrence of the Mayor, dated January 26, 2012, C.F. 12-0049.

<sup>5</sup> CAO and CLA, "Policy Options for Citywide Economic Development Functions," April 17, 2012, C.F. 08-3050.

<sup>6</sup> Wesson-Garcetti, June 20, 2012, with a concurring opinion of the Mayor, dated June 22, 2012, C.F. 08-3050.

## A LONG-HELD DESIRE FOR REFORM

Responsibilities for economic development activities in Los Angeles are widely dispersed among the Mayor's Office, various City departments and independent agencies (e.g., Los Angeles World Airport, Department of Water and Power, Harbor Department), and a few special purpose non-profit entities (e.g., Los Angeles Development Fund or the Los Angeles Tourism and Convention Board). Responsibilities for the financial resources available to implement economic development policies, programs and services are not aligned well with authority over these initiatives.

This situation has existed in the City for many years despite various attempts by City decision makers and administrators to improve this situation. Over the past two decades, various attempts among City leadership to reshape the City's economic development apparatus in the hope of playing a more assertive role in improving the local economy have included:

- In 1992, the City Council adopted a motion directing the CAO and CLA to identify every program, office, agency, commission or department within the City that had some role in business development or retention, determine which have been effective, and which have not, recommend which should be eliminated and advise the City Council how to restructure effective programs into a single entity that could include a one-stop business permitting office. This new office was to also have overall responsibility for developing the City's economic development strategy. The motion was amended to request an evaluation of whether these tasks should be housed in a new department or an existing department (C.F. 92-1950).
- In 1993, the City Council adopted in principle, the programmatic recommendations of the report entitled "Economic Development: A Strategy for City Leadership," as jointly prepared by CRA/LA, Los Angeles Housing Department, Department of City Planning and Community Development Department (CDD).<sup>7</sup> The City Council also approved in concept, consolidation of economic activities then performed by CDD, CRA/LA, and economic development programs within the Mayor's office, approved

creation of a Community Development Commission, and directed the CAO and CLA to prepare and present the steps required to effectuate these changes.

- A 1995 report by the CLA identified a number of weaknesses in the City's provision of economic development services, including the lack of a citywide coordinating strategy, lack of policy guidance and productive program implementation, lack of accountability by key players, and a piecemeal and reactive approach to major issues.
- In 1996, the City Council adopted the Framework Element of the City's General Plan, which included an Economic Development Chapter, with goals, objectives, policies and programs to enhance the City's economic performance, including a policy calling for reorganization of local government to coordinate economic development and business support services.
- As part of its ongoing consideration of the functional consolidation and change of CRA/LA to a Community Development Commission, the City Council created a Public Participation Task Force on Economic Development in 1999 to advise about the organizational restructuring of the City's economic development functions. Its report recommended formation of an economic development department, but for a variety of reasons associated with the complexity of combining the CRA/LA with the City organization, and differing views about altering the structure of CRA/LA, these changes did not occur.
- More recently, with the onset of the Great Recession, in 2007, the Mayor formed the Los Angeles Economy and Jobs Committee, which also recommended formation of an economic development department. The Committee determined that consolidation of all economic development activities into a single department was essential because "only a systematic change in the way the City performs economic development activities will have long lasting effects."

These are but some of the many efforts that have been launched by the City to reform its economic development organizational structure.

<sup>7</sup> HR&A's predecessor firm, Hamilton, Rabinovitz & Alschuler, Inc., assisted the four departments in drafting that report.

The key challenges which prevented these organizational reform efforts from advancing include the following:

- **Lack of sustained focus by City policy and executive leadership:** Although economic development reform was considered by the City Council, or a Council Committee, on many occasions over the past 20 years, momentum was lost as technical issues were referred to City staff, Council attention was diverted to other pressing matters, or shifting Mayoral administrations sought to define their own initiatives. Many interviewees stated that the City's elected leadership and top administrators appears to be more focused on this issue than ever before, due to the combined effects of the Great Recession and the demise of CRA/LA.
- **Reactive and inconsistent approach to the City's economy:** Some of the previous efforts to focus on reorganizing the City's economic development apparatus were stimulated by particularly difficult national or regional changes that caused disruptions in the local economy, including structural economic changes resulting from defense industry downsizing following the end of the Cold War in the early 1990s; the 1992 civil disturbances following the exoneration of Police officers involved in the Rodney King beating; the 1994 Northridge earthquake; and the 2000 and 2007-2009 national recessions. While the City reacted to each of these events, its efforts were not aligned with an overarching approach. In each case, as soon as local economic conditions showed glimmers of improvement, the City's attention shifted to other concerns. Across the board, interviewees stated that a new, more centralized organizational structure focused on citywide economic development, and development of an economic development strategic plan, could help make the City's efforts more consistent over time.
- **Narrow definition of "economic development":** In the past, the City of Los Angeles has focused almost exclusively on physical development as its economic development strategy. Redevelopment, which generally refers to the physical development of specific parcels or neighborhoods, is an important component of economic development. It helps revitalize blighted or underdeveloped areas and utilizes important regulatory tools, such as land assembly, development incentives and property tax increment that play significant roles in real estate transactions that support some citywide economic development goals. However, as many interviewees agreed, citywide economic development is broader than physical redevelopment. It uses a variety of strategies, including real estate development as well as strategic planning and business and industry development and services, to address and improve the health of the entire city's economy.
- **Narrow focus on control of the former CRA/LA:** Several of the reform efforts in recent years involved various issues related to whether, and how, the City Council could exert more direct control over the activities of the former CRA/LA. These efforts included complicated questions of how to integrate the staff of the former CRA/LA and other City departments. All of these issues are now moot, due to the dissolution of CRA/LA and the winding down of its obligations.
- **Lack of sustained private sector focus:** Although Los Angeles has a number of important business organizations, including chambers of commerce and business improvement districts, their participation in economic development tends to be issue- or area-specific, and also lacking in sustained focus over time. The City's business leaders have participated on numerous committees and task forces over the years, but reported in interviews with the HR&A Team their frustration that the ideas and recommendations generated by these efforts are rarely implemented. But many also expressed a willingness to re-engage if they see evidence of City Hall's commitment to more efficient organization for economic development, allocation of appropriate resources, and a willingness to attract top talent to implement a new direction.

“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

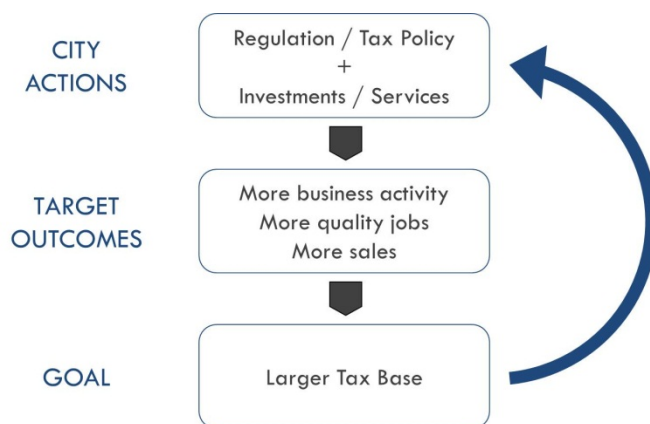
## THE ROLE OF CITY GOVERNMENT IN ECONOMIC DEVELOPMENT

An understanding of the role of city government in economic development provides an important basis for the specific recommendations in this report.

Many factors influence the economic vitality of a city, and the ability of its economy to grow and support a higher standard of living for its residents, including: the cost of doing business, which is typically influenced by state and local tax systems and the cost of inputs to production (e.g., labor, real estate, transportation, utilities); workforce skill and education levels; utility and transportation infrastructure, including connectivity to markets; permitting and regulatory policies; access to capital markets and availability of public incentives; quality of life and cost of living; and higher education resources, among others.

But city governments, like their state and national counterparts, are only able to influence and control some of these factors. Strategic actions of a municipal government include regulations, policies, investments, and services with target outcomes such as increased business activity, jobs, and retail activity. These outcomes contribute to a city’s tax base, growing the revenues which government can redistribute to promote overall equity and quality of life for city residents. An illustration of this virtuous cycle of economic development is shown in Figure II-1.

**Figure II-1: Virtuous Cycle of Economic Development**



Based on a review of best practices across the country, as presented in Chapter III of this report, economic development functions of city government typically include some or all of the following:

**Strategic Planning and Policy:** This function includes economic research and analysis on industry sectors and clusters, population and employment growth trends, labor force trends, business climate, knowledge-based resources, quality of life conditions and resources, and many other factors which inform the development of strategic plans, policies, and programs.

**Real Estate Services:** Cities can provide a suite of activities that are place-based and transactional, contributing to the development or repositioning of the City's landscape and assets, including:

- **Real Estate and Infrastructure Development:** Public investments to build, maintain, and improve open space, public realm, transportation (passenger and freight), and other infrastructure assets or major real estate projects key to the city's overall economic vitality. This function may also include supporting functions such as community visioning, master planning, zoning/environmental analysis, and coordination with other City departments and local economic development partners on neighborhood and district-wide planning initiatives.
- **Asset Management:** Portfolio-wide and property-level management of City-owned and -controlled buildings and land with economic development potential, including disposition, leasing, tenant management, maintenance, capital planning, and other services.
- **Transaction Services:** Negotiating land dispositions, including sales and ground leases, to non-City entities related to development; packaging and negotiation of public investments and contributions to economic development projects and programs, such as financing, incentives, and grants.

**Business and Industry Services:** Cities can also provide a suite of services designed to support the operations and growth of a city's businesses and key industry sectors – services which may include:

- **Business and Industry Development and Services:** Determination of target industries and industry clusters, and development and delivery of programs to attract, grow, and retain businesses in target industries and clusters (for example, business incubators, help desks, institutional partnerships, and marketing programs).
- **Small Business Services:** Small business technical assistance centers, help desks, and web applications; policymaking and provision of technical assistance to disadvantaged businesses such as minority- and women-owned business enterprises.
- **Workforce Development:** Job training programs, hiring programs to connect major employers and economic development projects with the local workforce, and educational partnerships.
- **Business Improvement Districts:** Administration of business improvement districts that provide economic development, safety, maintenance, public programming, and marketing services which benefit local businesses and contribute to community development in specific neighborhoods or subareas.
- **Tourism Development:** Marketing and promotional campaigns to increase visitor-serving business, conventions, and leisure visitation.

These are the functions of economic development that cities frequently undertake, in one form or another, to grow their economies and tax bases. Some, like transaction services, may be cross-cutting, applying not only to real estate services or development, but also business and industry services. Some focus more on the development of new economic activity, while others seek to advance a business-friendly environment by providing services to existing and new businesses, industries, or underserved neighborhoods. Although the specific groupings of these economic development functions may vary, the HR&A Team believes they represent a comprehensive portrait of city government's role in economic development. This report and the development of a new model for the City of Los Angeles are based on these functional definitions.



## BUILDING A NEW PATH

The HR&A Team's review and institutional knowledge of the City's struggles with economic development reform and assessment of the situation today make clear that many of the obstacles of the past to economic development reform are no longer relevant today.

In light of this new opportunity, and consistent with the Mayor's and City Council's direction to the CAO and CLA, the purpose of this report is to set forth a proposed new organizational model for an economic development delivery structure and to recommend specific actions to implement the new approach. Accordingly, the remaining chapters of this report include the following:

- **Chapter III: Lessons Learned from Other Cities.**

This chapter summarizes lessons learned and identifies critical success factors for Los Angeles from HR&A's experience and research; assesses the City of Los Angeles's comparative performance for economic development outcomes against the nation's largest cities; and provides an overview of economic development organizational models employed in eight other cities, as well as a comparison of the models based on a number of quantitative and qualitative factors. These case studies are described in further detail in Appendix B.

- **Chapter IV: Existing Conditions.** This chapter summarizes the results of a detailed review of the City's existing economic development resources and responsibilities. It is based on significant outreach, research, and analysis conducted over an intensive six-week period that consisted of:

1. *More than 80 Stakeholder Interviews.* The HR&A Team conducted in-person, confidential interviews with more than 80 key stakeholders, including executives and staff from the Mayor's office, City Council staff members, City departments, the three proprietary agencies, local business and other economic development organizations, and private industry leaders. A list of all interviewees is included in Appendix C.
2. *An On-Line Stakeholder Survey.* The HR&A Team also designed and fielded an online survey that was sent to more than 161 local economic

development entities throughout the City and which received responses from 7 City departments and 38 economic development partners, ranging from FilmL.A. to the Northwest San Pedro Neighborhood Council. A summary of the survey and the survey results are included in Appendix D.

3. *Detailed Organizational Reviews.* Based on the interviews, supplemental review of budgets and other documents, and several work sessions with City departments, the HR&A Team prepared analyses of programs, budgets and staffing data for 19 City departments and proprietary agencies and City-sponsored entities that have either direct or indirect responsibilities for economic development programs and resources currently provided in Los Angeles. Further details about this organizational analysis are also included in Appendix E.

- **Chapter V: A New Approach.** This chapter presents the HR&A Team's recommendations for a new organizational design for providing economic development services and deploying – and redeploying – related resources in Los Angeles. These recommendations are based on the lessons learned from previous city reorganization attempts, best practices from other cities, the results of the wide-ranging interviews with key constituencies in Los Angeles, and the HR&A Team's extensive experience providing economic development services throughout the United States. This chapter makes recommendations for the allocation of economic development responsibilities and authority for deployment of resources to a new EDD and a new, private sector-dominated CEDN. It also presents recommendations for the financial and governance framework which would help ensure the success of this new model.

- **Chapter VI: Implementation Plan.** The final chapter of this report provides an action agenda for implementing the HR&A Team's recommendations. It includes a summary of the key steps and associated timeline required to form, staff and launch the operation of the new EDD and CEDN. It also includes recommendations for certain key actions that each entity should undertake during the initial year of operation.



### **III. LESSONS LEARNED FROM OTHER CITIES**



## ECONOMIC DEVELOPMENT SUCCESS FACTORS

Every city has an approach to economic development uniquely suited to its economy, policy goals, and government structure. Nonetheless, based on more than three decades of economic development practice, and following an analysis of the economic development structures in eight U.S. cities, the HR&A Team has found that the specific delivery structure that a city chooses will only be successful insofar as it reflects five critical factors for efficient and robust, long-term economic development: Fundamentals, Leadership, Resources, Flexibility, and Talent.

The optimal design for economic development service delivery differs from city to city, and the organizational design has different impacts on these five critical success factors. For example, in the short-run, most government policies have a very limited impact on economic fundamentals and competitive position. Los Angeles largely achieved its position as a world-class city from its favorable climate, strategic global gateway location, and a laissez-faire approach to government that attracted and nurtured the entertainment, manufacturing, and health care industries (as well as oil exploration, automobile, aerospace and defense manufacturing at different times in its history). On the other hand, as illustrated by the case studies in this chapter, cities with good economic fundamentals, strong leadership and an effective economic development organization are better positioned to partner with the private sector to achieve positive job creation and tax base expansion results, and better leverage their resources to enhance their General Funds.

## LOS ANGELES' ECONOMIC DEVELOPMENT PERFORMANCE IN PERSPECTIVE

While Los Angeles is a world-class city with strong fundamentals, in recent years the City's performance has lagged in terms of economic development outcomes. The Mayor and City Council have recognized this underperformance in their call for a new approach to economic development.

To illustrate this comparative performance, the HR&A Team analyzed the general economic characteristics of the nation's top 20 cities (plus Cincinnati for reasons noted below) as ranked by employment, shown in Figure III-1. Cities selected for economic development case study cities are highlighted in bold. Among these case study cities, conditions more favorable than the U.S. average are highlighted in green.

**Figure III-1: Selected Economic Conditions in Case Study Cities Compared to Top 20 Cities by Employment**

Ranking by Employment	City	Employment 2011	% Annual Change 2002-2011 (CAGR <sup>8</sup> )	% Unemployment, 2011
	<i>United States</i>	<i>132,186,000</i>	<i>0.2%</i>	<i>8.9%</i>
1	<b>New York City (NY)</b>	<b>3,592,166</b>	<b>0.5%</b>	<b>9.0%</b>
2	<b>Los Angeles (CA)</b>	<b>1,669,752</b>	<b>-0.3%</b>	<b>13.6%</b>
3	<b>Chicago (IL)</b>	<b>1,116,216</b>	<b>-1.1%</b>	<b>11.3%</b>
4	Houston (TX)	931,857	-0.1%	8.2%
5	Phoenix (AZ)	662,583	-0.1%	8.9%
6	<b>San Diego (CA)</b>	<b>636,638</b>	<b>0.4%</b>	<b>10.0%</b>
7	San Antonio (TX)	574,457	0.8%	7.4%
8	<b>Philadelphia (PA)</b>	<b>573,813</b>	<b>-0.3%</b>	<b>10.8%</b>
9	Dallas (TX)	527,684	-0.9%	8.5%
10	<b>San Francisco (CA)</b>	<b>422,719</b>	<b>0.1%</b>	<b>8.6%</b>
11	<b>Austin (TX)</b>	<b>420,678</b>	<b>1.2%</b>	<b>6.2%</b>
12	San Jose (CA)	420,078	-0.1%	10.8%
13	Columbus (OH)	389,766	0.2%	7.6%
14	Indianapolis (IN)	384,786	-0.5%	9.4%
15	Jacksonville (FL)	376,764	0.5%	10.4%
16	Charlotte (NC)	341,982	1.4%	9.2%
17	Seattle (WA)	341,245	0.9%	7.5%
18	Fort Worth (TX)	322,341	2.5%	8.0%
19	Washington (DC)	309,060	0.9%	10.2%
20	<b>Boston (MA)</b>	<b>293,063</b>	<b>0.2%</b>	<b>7.1%</b>
...	...	...	...	...
69	<b>Cincinnati (OH)</b>	<b>130,288</b>	<b>-1.4%</b>	<b>9.4%</b>

Sources: U.S. Census Bureau American Community Survey (rankings), U.S. Bureau of Labor Statistics (employment)

<sup>8</sup> Compound Annual Growth Rate (CAGR) refers to the year-over-year percentage change in employment from 2002 through 2011.

Los Angeles is the 2nd largest city in the U.S. by total employment. However, as of 2011, Los Angeles had the highest unemployment rate (13.6 percent) of the Top 20 cities, more than four percentage points higher than the U.S. average (unemployment in the City has fallen somewhat since then). Employment in Los Angeles actually fell at an average rate of 0.3 percent annually between 2002 and 2011, whereas large cities such as New York, San Diego, San Antonio, Austin, Jacksonville, Seattle, Fort Worth, and Washington, DC, saw employment gains of 0.4 percent to 2.5 percent annually during this period.

The HR&A Team also analyzed which cities hosted the most Fortune 500 headquarters – in part as a measure of major private investment with sufficient resources, influence, and interest in citywide economic development – and found that only ten of the top 20 cities had five or more Fortune 500 headquarters. Los Angeles has only five such headquarters, equal to smaller cities such as Philadelphia and Columbus. Cincinnati, which is ranked 69th by employment, hosts a disproportionately high number of Fortune 500 companies, and these companies' executives provide significant business leadership for that city's economic development efforts. This information is shown in Figure III-2.

**Figure III-2: Fortune 500 Headquartered Companies in Top 20 Cities plus Cincinnati**

City	Fortune 500 HQs
New York City	45
Houston	22
Dallas	10
Chicago	8
San Francisco	8
Charlotte	7
Cincinnati	6
<b>Los Angeles</b>	<b>5</b>
Columbus	5
Philadelphia	5

Source: CNN Money 2011

As a qualitative assessment of how Los Angeles' fundamentals position it for growth, HR&A assessed the City's rankings in Forbes' 2012 "Best Places for Business and Careers" against the eight cities included in our case studies, as shown in Figure III-3. This annual

ranking looks at the 200 largest metropolitan statistical areas (MSAs) in the U.S.,<sup>9</sup> considering 12 metrics related to job growth (past and projected), costs (business and living), income growth over the past five years, educational attainment, projected economic growth through 2014, quality of life issues (e.g., crime rates, cultural and recreational opportunities), net migration patterns, and number of highly ranked colleges and universities. Business costs and educational attainment are given the highest weight in the overall rankings. The top-ten cities in the Forbes list were: Provo, Raleigh, Fort Collins, Des Moines, Denver, Ogden, Lincoln (NE), Dallas, Austin, and Nashville.

Rankings which were above average among the 200 cities (i.e., ranking of 1-100) are highlighted in green in Figure III-3. According to this qualitative comparison, Los Angeles ranked below average overall (ranking 123<sup>rd</sup> out of 200), and near the bottom of the list in terms of business costs and job growth, but ranked above-average in education.

**Figure III-3: Forbes' 2012 Rankings of Best Places for Business and Careers for 200 Metro Areas**

City	Overall	Cost of Business	Job Growth	Education
Austin	<b>9</b>	165	<b>3</b>	<b>16</b>
Boston	<b>45</b>	199	<b>47</b>	<b>12</b>
Chicago	132	174	138	<b>38</b>
Cincinnati	104	125	128	<b>84</b>
<b>Los Angeles</b>	<b>123</b>	<b>171</b>	<b>158</b>	<b>87</b>
New York City	<b>39</b>	200	<b>26</b>	<b>27</b>
Philadelphia	<b>62</b>	170	<b>72</b>	<b>34</b>
San Diego	<b>75</b>	176	140	<b>39</b>
San Francisco	<b>23</b>	197	<b>76</b>	<b>5</b>

Source: Forbes Best Places for Business & Careers 2012

<sup>9</sup> MSAs and cities actually represent different geographic areas (e.g., the Los Angeles MSA is equivalent to the County of Los Angeles, not the City of Los Angeles), but use of MSAs nonetheless informative for purposes of this comparative discussion.

## EIGHT CITIES, THREE APPROACHES

Based on the analyses shown in Figures III-1 through III-3, as well as the HR&A Team's professional experience with many of the economic development models utilized by the nation's largest cities, eight cities were selected for study and comparison with Los Angeles. These cities included:

- Five of the top 10 U.S. cities by employment (New York City, Chicago, San Diego, Philadelphia, San Francisco);
- Two smaller top 20 cities with high employment growth and low unemployment compared to the U.S. overall (Austin, Boston); and
- One small city with an innovative economic development entity and proportionately large number of Fortune 500 companies (Cincinnati).

The HR&A Team's analysis suggests that the eight models generally fall into the three following categories:

- **Centralized Economic Development Departments**, which concentrate most of a city's economic development functions (sometimes including all land use and housing functions) under one public entity, as in the case of Austin, Boston, Chicago, and San Francisco;
- **Privately Controlled Nonprofit Entities**, which are completely independent of city government and self-financed, with primarily private sector board leadership, as in the case of Cincinnati; and
- **Publicly Affiliated Nonprofit Entities**, which are separate from city government and self-financed, but act under the general direction of City leadership, as in the case of New York, Philadelphia, and San Diego.

Summary profiles of each of these cities' approach to organizing its economic development services are presented on the following pages. More detailed profiles are included in Appendix B.

## A DEEPER LOOK: ECONOMIC DEVELOPMENT STRUCTURES ACROSS THE UNITED STATES

The following inset profiles each city studied, including a summary of the lead actors advancing citywide economic development and a project description illustrating the nature of economic development activities conducted. In each city, these lead actors partner with a range of supporting public, quasi-public and private entities involved at the neighborhood, citywide and regional scale. More details about each city are provided in the full case study profiles in Appendix B of this report.

### AUSTIN, TX

#### Economic Development Landscape

**City Government:** The City of Austin has a Council-Manager form of government, with six at-large elected Council members (including an elected Mayor who serves as head of the Council) and a Council-appointed City Manager.

**City Economic Development Department:** Austin's Economic Growth and Redevelopment Services Office (EGRSO) is a City agency under the City manager and also the business development arm of Austin Energy, a City-owned utility. EGRSO is responsible for city economic development, redevelopment, small business development, cultural arts, music programs, and international programs. EGRSO is largely funded by Austin Energy.

**Regional Nonprofit:** The Austin Chamber of Commerce is a private, membership-based nonprofit comprised of more than 2,400 businesses. The Chamber supports EGRSO with business attraction and marketing services and receives funding from EGRSO.

**Citywide Nonprofit:** None.

**Transport and Utilities:** Public transit is operated by Capital Metro, a regional agency. The airport and utilities are owned by the City and operated by municipal departments: the Aviation Department, Austin Water Utility, and Austin Energy.



Image: Catellus.com

### Mueller Airport Redevelopment

**Real Estate and Infrastructure Development, Business and Industry Development, Transaction Services, Small Business Support**

Austin's EGRSO is leading major redevelopment projects that leverage the city's various competitive advantages off one another, including its established software and semiconductor industry; pro-business, low-regulatory, low-cost environment; prominent universities; entrepreneurial activity; and rich cultural amenities.

One example of success is the Mueller Airport redevelopment project, a 700-acre redevelopment site which, at full build-out, will include 4,900 housing units (25 percent affordable), live/work spaces (30 percent local entrepreneurs), the Dell Children's Medical Center, the University of Texas Medical Research Campus, Austin Film Studios, retail shops, and 140 acres of parks and open space.

New public infrastructure, estimated at \$170 million, will be paid for through private land sale proceeds (\$120 million) and debt (\$50 million) issued by a Council-created, Mueller-specific entity. This debt will be repaid from new incremental property tax and sales tax revenues generated at the site.

## BOSTON, MA

### Economic Development Landscape

**City Government:** The City of Boston has a Mayor-Council form of government, with a 13-member Council (nine districts, four at-large).

**City Economic Development Department:** The Boston Redevelopment Authority (BRA) is a State-chartered authority charged with guiding physical, economic, and social change in the City of Boston. The BRA is responsible for economic development, planning and zoning in the City of Boston. The governing board of the BRA consists of five members, four appointed by the Mayor and subject to confirmation by the City Council, with the fifth member appointed by the Governor. The BRA Board appoints the Director of the BRA, though in practice the selection of this candidate is highly influenced by the Mayor. In addition to managing the BRA, the Director serves as Chief Economic Development Officer in the Mayor's cabinet.

Although it is not the main EDD, Boston also has a Department of Neighborhood Development (DND) which manages federal funds and affordable housing initiatives, supports the City's Main Streets program, offers financial and technical assistance for small businesses and startups, conducts policy development and research, and manages the City's portfolio of tax-foreclosed land and buildings. For larger sites, DND may transfer the property to the Boston Redevelopment Authority for development.

**Regional Nonprofit:** The Greater Boston Chamber of Commerce is a private, membership-based nonprofit comprised of more than 1,500 businesses. The Chamber is principally responsible for hosting networking events, conducting legislative efforts and advocacy, and leadership development.

**Citywide Nonprofit:** None

**Transport and Utilities:** The airport and port are owned and operated by the State-controlled Massport. Utilities are operated by the City-controlled Boston Water and Sewer Commission, with electricity provided by private companies. Public transit is operated by the State-controlled Massachusetts Bay Transportation Authority.



Image: InnovationDistrict.org

### Innovation District

#### *Real Estate Development, Asset Management, Business and Industry Development, Small Business Support*

BRA is leveraging the city's powerful tech sector and institutional presence in the creation of the Innovation District, a 1,000-acre area on the South Boston Waterfront which is a growing home to startup, research-based, and other innovation companies. More than 90 companies and 2,800 new jobs have moved to the Innovation District since the Mayor announced its creation in January 2010.

A new project in the Innovation District is Seaport Square, a new 23-acre mixed-use sustainable neighborhood containing approximately 6.3 million square feet of residential, retail, office, hotel, innovation, civic, and cultural uses.

Seaport Square also includes the construction of the new Boston Public Innovation Center, a partnership between the City and the Seaport Square development team that will serve as a hub and home base for entrepreneurs to meet and exchange ideas, to convene programs and events, and support the innovation economy. The facility will be a one-story, 12,000 square foot building with 9,000 square feet of modular meeting and event space, and a 3,000 square foot restaurant and test kitchen. BRA will lease the facility for five years with the option to renew for another five years thereafter.



## CHICAGO, IL

### Economic Development Landscape

**City Government:** The City of Chicago has a Mayor-Council form of government, with a 50-member council of district representatives.

**City Economic Development Department:** The Chicago Department of Housing and Economic Development (HED) is a City agency responsible for managing economic development, affordable housing, and community-based planning projects. The Commissioner of HED is appointed by the Mayor.

**Regional Nonprofit:** World Business Chicago (WBC) is a private nonprofit organization whose primary function is business retention, expansion and attraction to foster private sector growth. This responsibility includes assistance with site selection, state and local incentives information, and referring businesses to HED for public financing and navigation through permitting and regulatory approvals. WBC does not report directly to the City but is chaired by the Mayor, with a board comprised of the greater metropolitan area's business leaders.

**Citywide Nonprofit:** None.

**Transport and Utilities:** Chicago's port is operated by the Illinois International Port District, an independent municipal corporation controlled by the State and City. Public transit is operated by the Chicago Transit Authority, an independent agency controlled by the City and State. The City operates the airports (through the Department of Aviation) and water/sewer services (through the Department of Water Management). Private companies provide electricity.



Image: Sustainablog.org

### Green Exchange

#### **Real Estate Development, Business and Industry Development, Transaction Services**

Chicago HED has leveraged its public-private financial tools and the city's green industry to facilitate the rehabilitation of a 275,000 square foot rehabilitated space into the Green Exchange, which hosts more than 100 retail and other businesses focused on purveying green products and services, such as a paperless bank and organic café.

HED helped finance the project through HUD Section 108 loan funds and tax increment financing: a \$15 million Section 108 loan, which provided upfront gap financing for project construction, will be paid down by TIF proceeds and operating revenue from the project over time.

## CINCINNATI, OH

### Economic Development Landscape

**City Government:** Cincinnati has a Mayor-Council-Manager hybrid form of government, with a directly elected Mayor, nine at-large elected Council members and a City Manager appointed by the Mayor and City Council.

**City Economic Development Department:** The Cincinnati Economic Development Division is primarily focused on brownfield redevelopment, infrastructure assistance, incentive package negotiation, business attraction and expansions, small business assistance, and sector-focused activities.

**Regional Nonprofit:** The Cincinnati USA Regional Chamber is a private, membership-based nonprofit uniting 15 counties in Ohio, Indiana and Kentucky in attracting businesses to the region. The Chamber represents the interests of nearly 5,000 businesses. Cincinnati USA's services include business attraction and retention, programs and events, member benefits, and government advocacy.

**Citywide Nonprofit:** The Cincinnati Center City Development Corporation (3CDC) is a 501(c)(3) private nonprofit organization that serves as a master developer, asset manager, lender and fund manager in the Central Business District and Over-the-Rhine areas of the city. Its 33-member board is drawn from the private and nonprofit sectors, including one member of the Cincinnati USA Regional Chamber.

**Transport and Utilities:** The airport is operated by the County-controlled Kenton County (Kentucky) Airport Board. The port is operated by the City/County-controlled Port of Greater Cincinnati Development Authority. Public transit is operated by the State-controlled Southwest Ohio Regional Transit Authority. Water/sewer utilities are operated by the City (through the Greater Cincinnati Water Works). Private companies provide electricity.



Image: 3CDC.org

### Fountain Square and Over-the-Rhine

#### *Real Estate and Infrastructure Development, Asset Management, Transaction Services*

Cincinnati has benefited from the presence of powerful and civic-minded business leaders which have advanced an economic development strategy that leverages public funds and assets with significant private investment. 3CDC has transformed Fountain Square from an unwelcoming plaza into a vibrant and programmed space, managing construction, financing, asset management, and programming. The total project cost was \$48.9 million and sources included a \$4 million grant from the City of Cincinnati and \$44.9 million funded by non-City sources raised by 3CDC, including the corporate community, bank loans, State of Ohio loans, and investments from two private equity funds managed by 3CDC. 3CDC is also working to revitalize a 110-square block area of Over the Rhine. More than \$255 million has been invested in this underserved neighborhood, including \$64 million in public funds from the City and the remainder from 3CDC's private equity funds, State and Federal Historic Tax Credits, and other non-City funds – a 1:4 public to private investment ratio.

## NEW YORK, NY

### Economic Development Landscape

**City Government:** New York City has a Mayor-Council form of government, with a 51-member Council representing districts across five boroughs. The Mayor appoints a Deputy Mayor for Economic Development who oversees the New York City Economic Development Corporation, Department of Small Business Services, Department of City Planning, Department of Housing Preservation and Development, Department of Transportation, Department of Finance, and others.

**City Economic Development Department:** the Department of Small Business Services (SBS) focuses on business assistance, workforce development, matching employers to a skilled workforce, and the development of commercial districts.

**Regional Nonprofit:** None.

**Citywide Nonprofit:** The New York City Economic Development Corporation (NYCEDC) is the City's primary engine for economic development, charged with leveraging the City's assets to drive growth, create jobs and improve quality of life. NYCEDC is a 501(c)(3) nonprofit organization with a 27-member board. The Board Chair is appointed by the Mayor in consultation with the Partnership for New York City, a nonprofit investment and business advocacy group. The other members are appointed as follows: 6 directly by the Mayor, 5 by the Mayor upon nomination by the Borough Presidents; 5 by the Mayor upon nomination by the City Council Speaker; and 10 (who may not be public officials) appointed by the Chair from a list approved by the Mayor. The President is formally elected by the Board of Directors, but selection is heavily influenced by the Mayor, and the President serves at the pleasure of the Mayor.

**Transport and Utilities:** Ports and airports are operated by the bi-state Port Authority of New York and New Jersey. Public transit is provided by the State-controlled Metropolitan Transit Authority. The City's Department of Environmental Protection provides water/sewer services. Electricity is provided by a mix of State authorities, including the New York Power Authority and Long Island Power Authority, and private companies.



Image: NYCEDC.com

### CornellNYC Applied Sciences Campus

**Real Estate Development, Asset Management, Business and Industry Development, Workforce Development**

NYCEDC is leveraging public assets to promote the development of the emerging applied sciences industry and workforce. The City, Cornell University, and the Technion-Israel Institute of Technology are partnering on a \$2 billion, two million square foot applied science and engineering campus on Roosevelt Island, the first applied science project in the city. The City is ground leasing the site and providing \$100 million in City capital to assist with site infrastructure, construction, and related costs.

NYCEDC led the procurement process, negotiated on behalf of the City, is managing the land use approvals process, and will oversee the development process.

When completed, the new Roosevelt Island campus will nearly double the number of full-time graduate engineering students enrolled in leading Master's and Ph.D. programs, with extensive multiplier effects.

## PHILADELPHIA, PA

### Economic Development Landscape

**City Government:** Philadelphia has a Mayor-Council form of government, with a 17-member Council (ten districts, seven at-large).

**City Economic Development Department:** The Department of Commerce is an umbrella organization for all economic development activity, including small business services, neighborhood economic development, coordination of business attraction and retention, and coordination of the Philadelphia Industrial Development Corporation and the Redevelopment Authority. In 2008, the City created a new Deputy Mayor for Planning and Economic Development who also serves as Director of the Department of Commerce.

**Regional Nonprofit:** The Greater Philadelphia Chamber of Commerce promotes regional growth and advances business-friendly policies in the 11-County region. An affiliate, Select Greater Philadelphia, provides marketing and resources for companies considering relocation to the region.

**Citywide Nonprofit:** The Philadelphia Industrial Development Corporation (PIDC) plans and implements real estate financing transactions that attract investment, jobs and tax ratables to the City. PIDC is a 501(c)(4) nonprofit formed as a joint venture between the City of Philadelphia and the Greater Philadelphia Chamber. PIDC has a 30-member board, comprised of 7 City employees who serve as voting, ex-officio members, 8 Chamber members selected by the Chamber President, and 15 private directors selected jointly by the Chamber President and Director of Commerce. PIDC has a President selected by the Board, but this selection is influenced by the Mayor.

**Transport and Utilities:** Philadelphia's port is operated by the State-controlled Philadelphia Regional Port Authority. Public transit is operated by the State-controlled Southeastern Pennsylvania Transportation Authority. The City owns and operates the airport (through the Department of Commerce) and water/sewer utilities (through the Water Department). Private companies provide electricity.

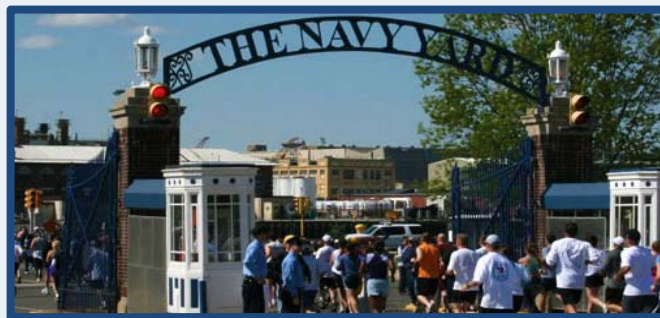


Image: PIDC-PA.org

### Navy Yard

#### *Real Estate Development, Asset Management, Business and Industry Development, Transaction Services*

As the entity responsible for planning, operations, and real estate/infrastructure development of the 1,200-acre Philadelphia Navy Yard site, PIDC is carrying out a 2004 master plan for 16.5 million square feet of development including office, retail, industrial, research and development (R&D), and residential uses. The Navy Yard is currently home to over 120 companies and 10,000 employees in the office, industrial, manufacturing, and R&D sectors, serving as headquarters for Urban Outfitters, the Acker Philadelphia Shipyard, and Tasty Baking Company.



## SAN DIEGO, CA

### Economic Development Landscape

**City Government:** The City of San Diego has a Mayor-Council form of government, with an eight-member Council comprised of district representatives. As of 2006, San Diego became a “strong mayor” form of government, with a Chief Operating Officer (COO) in the Mayor’s Office overseeing all line departments.

**City Economic Development Department:** The Economic Development Division is the umbrella organization for all economic development activity in the city, including small business services, neighborhood economic development, coordination of business attraction and retention, and coordination with Civic San Diego. The Economic Development Division reports to the City via the newly created Development Services Department whose functions also include entitlements, economic development, building construction and safety, city planning, facilities financing, and neighborhood code enforcement.

**Regional Nonprofit:** The San Diego Regional Economic Development Corporation is a private, member-based organization whose mission is to attract high-wage companies to the region from around the world, assist with expansion plans, and to champion efforts to improve the region’s competitiveness. The organization assists in business relocation and attraction, and also performs economic analysis.

**Citywide Nonprofit:** Civic San Diego, the successor to the Center City Development Corporation, is tasked with winding down the former Redevelopment Agency by confirming and processing payments due to enforceable obligations, disposing and/or transferring ownership of assets, providing project management services to complete ongoing projects, and implementing affordable housing functions. Civic San Diego also provides planning and development permitting for downtown San Diego, manages the Downtown Parking Management District, and implements the Comprehensive Downtown Parking Plan. Civic San Diego is a 501(c)(3) corporation. The City is the sole member of Civic San Diego. The organization has a nine-member board of directors; the City Council directly appoints one member and votes to appoint seven members based on nominations from the Mayor.



Image: SanDiego.com

The ninth member is appointed by the Mayor. The board chair is elected by the board of directors. The board selects the President/CEO, but that selection is subject to a two-thirds concurring vote by the Mayor and City Council.

**Transport and Utilities:** The airport, port, and public transit systems in San Diego are operated by three State-created and regionally-controlled entities: the San Diego County Regional Airport Authority, Port of San Diego, and Metropolitan Transit System. The City operates water and sewer utilities (through the Public Utilities Department). Private companies provide electricity.

### Horton Plaza

#### **Infrastructure Development, Asset Management, Transaction Services**

Civic San Diego is leading a joint venture between the City and the Westfield Group to expand the historic Horton Plaza park downtown, restoring the 142-year-old park and its 102-year-old fountain, demolishing the former department store building south of the park, and adding a plaza, pavilions, restroom and interactive fountain. The City is contributing funds from former Redevelopment Agency accounts and Westfield is contributing the plaza property; demolition expenses; a portion of plaza improvement costs; maintenance of the plaza for 25 years; plaza programming; and an additional contribution to the Balboa and Lyceum theaters and a proposed homeless shelter.

## SAN FRANCISCO, CA

### Economic Development Landscape

**City Government:** San Francisco has a Mayor-Board of Supervisors form of government, with an 11-member board of district representatives. San Francisco is a combined City/County entity, with the Board of Supervisors as the sole legislative body.

**City Economic Development Department:** The Office of Economic and Workforce Development (OEWD) is the umbrella organization for all economic development activity, including business attraction and retention, small business assistance, workforce development, real estate development, neighborhood development, the film industry, and international trade and commerce.

**Regional Non-Profit:** The San Francisco Center for Economic Development (SFCED) provides a one-stop information and networking resource for businesses considering their strategy and location, providing crucial relocation knowledge and links to professional and industry networks, helping companies take advantage of government incentives, aiding them as they navigate state and local regulations. The SFCED helps businesses by confidentially providing free, comprehensive advice and fast-track access to the information, expertise and contacts needed to successfully establish and thrive in San Francisco and the Bay Area.

**Citywide Non-Profit:** None.

**Transport and Utilities:** The State-created, regionally-controlled Bay Area Rapid Transit (BART) entity operates public transit services across three counties. The City/County of San Francisco operates the airport, port, public transit, and utilities through its municipal departments, including the San Francisco Airport Commission, Port Department, Municipal Transportation Agency, and Public Utilities Commission.



Image: PlacesOnline.com

### The San Francisco Mint

#### *Real Estate Development, Business and Industry Development, Transaction Services*

The City of San Francisco has been highly proactive in redeveloping formerly underutilized Federal, State and City-owned properties. One example is the San Francisco Mint, built in 1874, which has played a significant role in the city's history and is now listed on the National Register of Historic Places. In the mid-1990's, deficits and costly seismic upgrades threatened to close the building permanently. The OEWD worked extensively with the federal government to acquire the building and later selected the San Francisco Museum and Historical Society (SFMHS) to redevelop the site as a museum celebrating the city's history. The new museum opened to the public in the summer of 2010. The SFMHS secured more than \$90 million through a combination of grants, donations and other institutional sources.

## PERFORMANCE OF FUNCTIONS BY ECONOMIC DEVELOPMENT ENTITIES

Figure III-4 compares how economic development functions are performed in each of the eight case study cities.

Centralized EDDs perform a broad range of functions and get their primary funding from a mix of sources including general and special revenue funds (Chicago, San Francisco), utility revenues (Austin), and asset management revenues (Boston). The privately controlled nonprofit entity in Cincinnati is entirely privately financed by revenues from real estate development, asset management, programs, and private contributions, but performs the narrowest range of functions out of the three types of models. Publicly affiliated nonprofit entities in New York, Philadelphia, and San Diego offer a balance of the two types of models, working under the direction of city leadership, performing a wide range of economic development functions, and leveraging public assets (e.g., land, grants, financing, incentives) with some private resources to minimize bureaucracy and maximize returns to the City.

On a function-by-function basis, the HR&A Team found the following in its analysis:

- **Strategic Planning and Policy:** There is no clear pattern among the eight cities as to whether strategic planning and policy development is led by the EDD, a citywide nonprofit, or a regional nonprofit such as a Chamber. The reality in many cities is that this is a shared responsibility with elected and senior appointed City officials often working closely with a nonprofit. It is more often the case that a nonprofit will lead analytical research and initial drafting of citywide economic development strategies and policies, with elected and City officials providing high-level guidance and policy decisions, ultimately leading to city adoption of the citywide strategy.
- **Real Estate and Infrastructure Development:** In the cities with citywide nonprofits (New York, Philadelphia, San Diego), planning and development of public-private real estate and strategic public infrastructure investments are led by the nonprofit. In the cities that do not have a citywide nonprofit (Austin, Boston, Chicago, San Francisco), the centralized EDD tends to lead these functions. In most instances, the City's governing body must authorize disposition of public assets or commitment of public resources that exceed certain thresholds.

**Figure III-4: Comparison of Functional Divisions Among Case Study Cities**

*EDD = Economic Development Department*

*NP = Citywide and City-Affiliated/Private-ly-Controlled Nonprofit*

*RNP = Regional Nonprofit (e.g., Regional Chamber of Commerce)*

City	Strategic Planning & Policy	Real Estate Services			Business & Industry Services				
		Real Estate/Infrastructure Development	Asset Mgmt.	Transaction Services	Business & Industry Dev. & Svcs.	Small Business Services	Workforce Dev.	BIDs	Tourism Dev.
Austin	RNP	EDD	Other	EDD	RNP	EDD	Other	EDD	Other/EDD
Boston	EDD	EDD	EDD	EDD	EDD	EDD	EDD	Other	Other
Chicago	RNP	EDD	EDD	EDD	EDD/RNP	Other	EDD	EDD	Other
Cincinnati	EDD	NP	NP	NP/EDD	EDD/RNP	EDD/RNP	RNP	EDD/NP	Other
New York City	NP	NP	NP	NP	NP	EDD	EDD	EDD	Other
Philadelphia	RNP	NP	NP	NP/EDD	RNP/NP	EDD	EDD	EDD	Other
San Diego	EDD	NP	NP/Other	NP/EDD	EDD	EDD	EDD	EDD	Other
San Francisco	EDD	EDD	Other	EDD	EDD/RNP	EDD	EDD	EDD	Other

- **Asset Management:** Properties with current or future economic development potential are typically managed by the same entities that provide real estate development services (citywide nonprofit or EDD), thereby concentrating the real estate professionals in the City's apparatus. The revenues from these functions, such as rental income, parking net operating income, disposition proceeds and/or transaction fees, often help fund operations of the EDD or citywide nonprofit (San Diego, Cincinnati, Boston, New York and Philadelphia).
- **Transaction Services:** Similar to public-private real estate development, these services are largely carried out by nonprofits in the cities that have citywide nonprofits and by the EDD where citywide nonprofits do not exist. However, even in cities with nonprofits, the EDD provides oversight or approval for transactions after they have been underwritten and negotiated by the nonprofit.

The EDD may also administer certain incentives or financing programs after a deal has been approved, depending on the source of funds for such programs.

Both EDDs and nonprofits (e.g., Boston, Chicago, Cincinnati, New York, Philadelphia) often use nonprofit subsidiaries or affiliates as conduits for certain types of subsidized financing such as tax-exempt bond financing and New Markets Tax Credits.

- **Business and Industry Development and Services:** In nearly all cities where a nonprofit partner exists, the nonprofit partner has a significant responsibility for staffing citywide business and industry development services, including industry target marketing, advocacy, business attraction and retention, and international business outreach. Austin, Boston, Chicago, Cincinnati, Philadelphia, San Diego, and San Francisco all rely on strong and active regional nonprofits for these activities. In New York, the citywide nonprofit takes on these responsibilities.

In the case of public partnerships with higher education and research institutions on the incubation or development of emerging industries, the EDD and citywide nonprofit may play a stronger role than a

regional nonprofit as in the case of Austin, Boston, Chicago, New York, and Philadelphia.

- **Small Business Services:** The EDD or another City department almost always performs these services, including management of business assistance programs, such as an online portal with permitting and incentives or financing information, or a one-stop business resource center. In some cities, as in Chicago and Cincinnati, the regional Chamber may provide these services instead.
- **Workforce Development:** The EDD or another City department almost always performs these services, including management of workforce programs, investments, and centers.
- **Business Improvement Districts:** Initiation and ongoing oversight of BIDs and similar districts are nearly always managed by the EDD or another City department.
- **Tourism Development:** Tourism development, including marketing services and establishment of tourism helpdesks, is usually led by an agency or nonprofit other than an EDD or citywide nonprofit, such as a convention and visitors bureau or other tourism-specific entity.



## BEST PRACTICES

Several best practices from case study cities may be applicable to a new economic development model in Los Angeles. These takeaways, aligned with the critical success factors related directly to economic development organizations, include:

### Resources

Five of the eight case study cities have financially self-sustaining economic development organizations, while a sixth city has found a stable, dedicated source of public funding.

**Self-sustaining Entities:** Boston, New York, Philadelphia, and Cincinnati each have off-budget entities which are not subject to annual appropriations processes and are self-sustaining due to revenues from activities such as asset management, real estate development, administration of programs or transactions, investment income, private donations, and other sources. (NYCEDC began with a small appropriation from the City Council but quickly became operationally self-sufficient. It continues to receive capital funds for specific projects from the City.)

**Utility-funded Entity:** Austin is funded by revenues from Austin Energy, a publicly-owned utility. Utility income is relatively reliable as it does not fluctuate to the same extent as other City revenue streams (e.g., property or sales taxes) during economic downturns, ensuring that economic development is consistently a priority in Austin.

### Flexibility

**Flexibility for Citywide Efficiency:** Boston, Chicago, New York, and Philadelphia have consolidated all economic development-related powers (and most, if not all, functions and staff) under a single Deputy Mayor, department head, or combined role to maximize operational and organizational efficiencies. As the City's chief economic development executive, this person exercises reasonable autonomy in streamlining processes and implementing initiatives to advance a citywide economic development agenda.

**Flexibility for Organizational Efficiency:** Austin, Chicago, Cincinnati, and Philadelphia outsource certain functions (e.g., business attraction and marketing) to

entities with similar economic development goals to allow their EDDs and nonprofits to focus on core strengths while leveraging the talents of others.

**Flexibility for Adaptation:** Cincinnati and Philadelphia's nonprofits are particularly nimble, with the ability to take on new capacities and capitalize on new or innovative financing tools (e.g., New Markets Tax Credits and EB-5 Financing).

### Talent

While more difficult to gauge, it appears that the nonprofit entities (and likely some EDDs) in the case study cities have been able to attract top talent at the board, executive, and staff levels.

**Experienced Board Leadership:** In Cincinnati, New York, Philadelphia, and San Diego, the nonprofit board includes private and nonprofit sector leaders representing a cross-section of relevant disciplines, including economic development, real estate, law, labor, finance, urban design, or others.

**Executive and Staff-Level Talent:** In nearly all the case study cities with nonprofits, the nonprofit President/CEO has established and nurtured a culture of meritocracy, attracting talented, motivated professionals with expertise in the services to be provided. Professionals are particularly interested in strong nonprofits such as NYCEDC and PIDC where they can gain unique expertise in complex transactions and valuable experience with public processes. Without many of the constraints that limit governmental flexibility, nonprofit leadership is also able to reorganize talent within the organization as needed.

## LESSONS FOR LOS ANGELES

These case studies demonstrate that the key success factors of a high-performing citywide economic development operation include economic fundamentals, strong leadership from City officials and/or the business community, stable financial and regulatory resources commensurate to mission, operational flexibility, and human talent and entrepreneurial leadership at all levels of the organization.

While Los Angeles has been able to achieve its position as a world-class city despite the lack of a clear economic development organizational structure, the case studies above demonstrate how other cities have employed such structures to more effectively leverage public financial and real estate assets with private investment. The most effective city governments maximize this leverage by establishing an organizational structure enabled to carry out a flexible and opportunistic approach to economic development, powered by visionary leadership as well as strong human talent. A significant part of this approach involves flexibility and focus on structuring innovative public-private partnerships and transactions related to real estate and infrastructure development, asset management, business and industry development, and other activities.

The following chapter focuses on existing conditions in the City of Los Angeles, analyzing the current economic development structure to assess how best practices from other cities can be applied to inform a recommended new model in Los Angeles.

## **IV. EXISTING CONDITIONS**



## ECONOMIC DEVELOPMENT IN LOS ANGELES TODAY

As with the case studies presented in the previous chapter, this one begins with a brief overview of the City of Los Angeles' current economic development structure to provide context for evaluating the details of its economic development apparatus:

**City Government:** Los Angeles has a Mayor-Council form of government, with 15 City Council members elected by District and a Mayor elected at-large. The Mayor and City Council are advised by an appointed City Administrative Officer; the City Council is also advised by an appointed Chief Legislative Analyst. Under the City Charter, powers and responsibilities – including those related to economic development – are divided between the Mayor and City Council, although a rebalancing of this relationship was enacted by Charter amendment and became effective in 2000.

**City Economic Development Department:** None. As discussed in this chapter, responsibilities for economic development activities and the use of economic development resources in Los Angeles are highly dispersed throughout City government. Some elements of economic development were also previously provided by CRA/LA prior to its dissolution.

**Regional Nonprofits:** The Los Angeles County Economic Development Corporation (LAEDC) is a private, nonprofit corporation established by the County of Los Angeles in 1981 with a mission to attract, retain and grow businesses and jobs for the regions of Los Angeles County. The LAEDC serves the County's 88 cities (including the City of Los Angeles) and more than 100 unincorporated communities through its free business assistance services, business attraction and retention programs, economic research, fee-supported economic and policy analysis, and public policy leadership. LAEDC recently drafted a County-wide strategic plan for economic development that has been endorsed by most of the cities, including Los Angeles. It is governed by a 135-member Board of Governors representing various public and private sector interests and academic institutions, 63 of whom also serve on its Executive Committee.

The Los Angeles Area Chamber of Commerce is another regional nonprofit which conducts business advocacy,

provides assistance to small businesses, sponsors programs to advance global trade in the region and help local businesses build international relationships, and supports various programs to provide young adults with training and jobs skills to advance their education and career, including partnerships with local educational institutions. The Chamber includes 1,600 members from across Los Angeles County representing 35 industry sectors. Other sub-regional nonprofits that provide related services, particularly to small businesses, include the Valley Industry and Commerce Association and the Valley Economic Alliance, as well as the Hollywood Chamber of Commerce, among others.

**Citywide Nonprofit:** The City does not have a nonprofit focused on general economic development, but has several with specialized economic development foci, such as the Los Angeles Tourism and Convention Board.

**Transport and Utilities:** The County-controlled Los Angeles County Metropolitan Transportation Authority (Metro) operates public transit. The City of Los Angeles operates the airport, port, and utilities through its proprietary agencies, including Los Angeles World Airports, the Harbor Department, and the Department of Water and Power.

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Despite the lack of a dedicated citywide economic development department or citywide economic development nonprofit, the City of Los Angeles has completed several significant development projects and has implemented other initiatives that support citywide economic development through bold leadership from both public officials and the private sector.

Many of these, such as the mixed-use revitalization of Bunker Hill, the L.A. Live sports and entertainment district, and revitalization of other parts of downtown Los Angeles, were accomplished with the support of the former CRA/LA. Other recent examples of City leadership include the Mayor's novel financing proposal, known as "30/10," which will accelerate the construction of 12 new rail projects, originally scheduled to be built over three decades. The City Council's approval of the 1999 Adaptive Reuse Ordinance is widely viewed as Downtown Los Angeles' game-changer, facilitating the conversion of historic, underutilized office buildings into high-end condo and

apartment developments. Outside of the central city area, other initiatives that support citywide economic development include efforts to decontaminate brownfield sites, attract grocers and fresh food to under-served neighborhoods, revitalize the Los Angeles River, create major new mixed-use developments such as Playa Vista, establish transit-oriented districts around rail stations, and develop certain industry sector initiatives like the "CleanTech Corridor."

In addition, through its proprietary agencies – the City-owned utility system, the Los Angeles International Airport, and the Port of Los Angeles – the City has expanded its significant regional and international infrastructure resources.

Although these have been significant accomplishments, the projects tend to be one-off, and the entities that drive them often do so without being part of a coordinated citywide strategy for economic development. Interviewees and survey respondents all indicated that in order to capture and leverage the full value of these and future undertakings, the City must have an institutional structure that assures that individual initiatives, with the potential for citywide impact, meet broader citywide policy goals in addition to their merits as stand-alone endeavors.

The remainder of this chapter inventories the Los Angeles economic development landscape in further detail, describing all of the actors, functions, and resources employed for economic development purposes.

“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

## ORGANIZATIONAL FRAGMENTATION

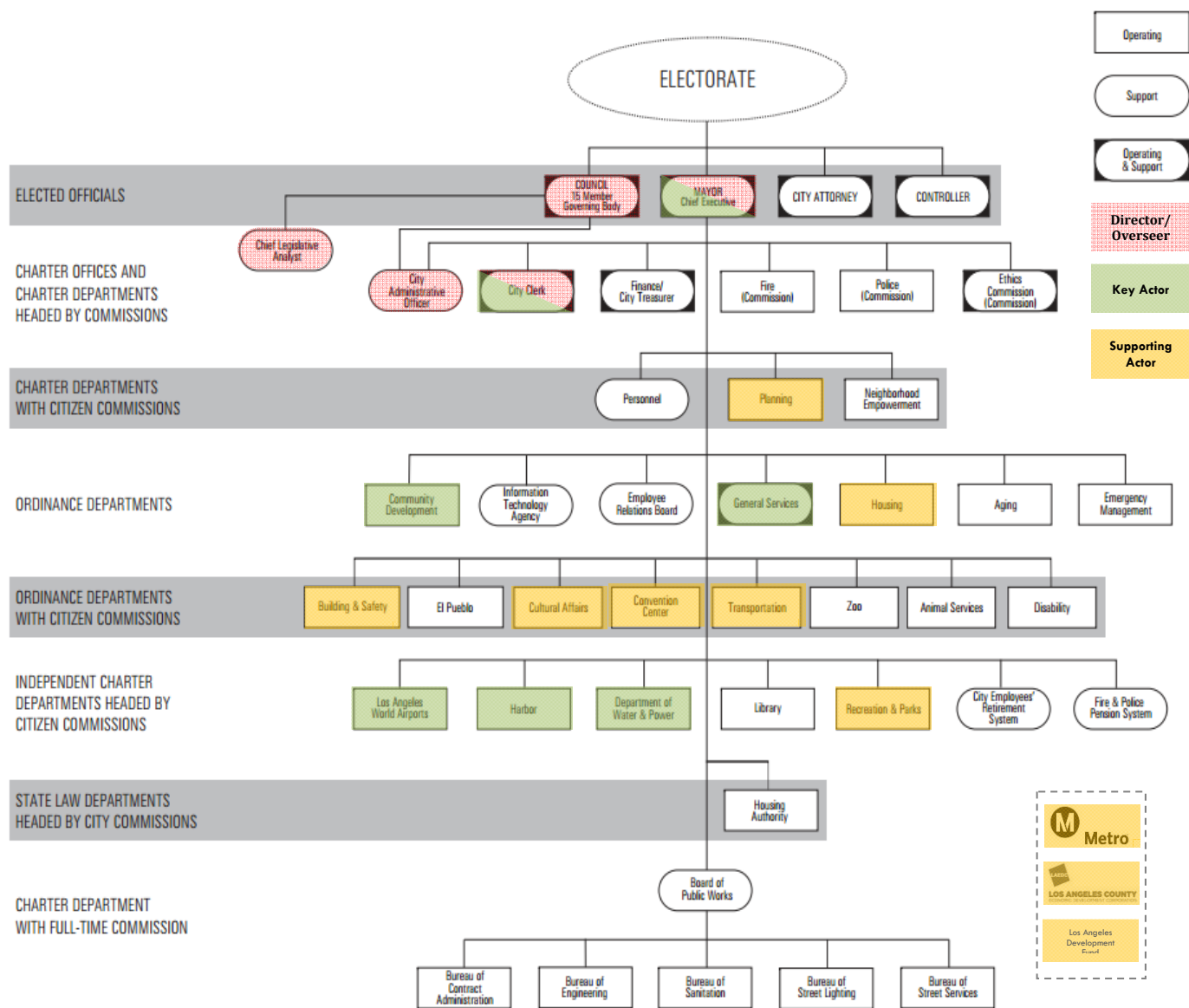
The City of Los Angeles’ economic development activities are distributed throughout city government and beyond and are undertaken by numerous entities. Responsibility for economic development is fragmented and divided among the following entities, as illustrated in Figure IV-1:

- The Mayor the City Council institutionally, and individual Council Members in their districts, have responsibilities for setting policy, directing the implementation of economic development initiatives in the City or analyzing or approving the allocation of resources for economic development;
- The City Administrative Officer (CAO) and Chief Legislative Analyst (CLA) make recommendations and provide support for economic development-related policy and management responsibilities created by the Mayor and City Council. Occasionally the CAO and CLA may direct specific real estate project negotiations involving City resources, due to the lack of clarity regarding which entity in the government is ultimately responsible, particularly after the dissolution of CRA/LA;
- Seven “key centers of responsibility” in the executive branch of city government – the Mayor’s office itself, the City Clerk, the departments of Community Development (CDD), General Services, and the three Proprietary Agencies either directly deliver critical economic development functions or control significant resources that could be more efficiently and coherently deployed to further the City’s economic development efforts; and
- Several other City departments or City-controlled entities, including the Departments of City Planning, Housing, Cultural Affairs, Transportation, Recreation & Parks, and the Convention Center, as well as the LA Development Fund and others, are involved to some extent in economic development;
- Regional authorities such as Metro have important roles in delivering and supporting economic development services;
- Not-for-profits such as the Hollywood Chamber of Commerce and the Valley Industry and Commerce

Association focus on neighborhood economic development, or, as in the case of LAEDC, the regional economy, and each provides a certain level of service in support of the City's economic development goals.

While each of these entities – and many more, including BIDs, industry development partners, and community-based organizations – has made unique contributions to Los Angeles’ economy, this fragmented distribution of economic development functions in the City poses significant challenges and inefficiencies.

FIGURE IV-1: MAPPING THE ECONOMIC DEVELOPMENT APPARATUS TODAY





## FUNCTIONAL GAPS AND DISCORD

A function-by-function evaluation of the City's economic development apparatus details the City's organizational fragmentation, highlighting certain themes that the new model must address – namely the filling of functional gaps or lack of resources for economic development services, the disjuncture between services and a citywide strategy for economic growth, and the general misalignment of resources, responsibilities, and incentives.

The HR&A Team analyzed two types of resources related to economic development:

- **Operating Resources:** The staff and budget resources dedicated by an organizational entity to performing day-to-day functions directly related to economic development. These operating resources may be funded by the General Fund, Special Funds, or other restricted funding sources.
- **Project Resources:** Other sources of funds that are used for the implementation of economic development programs and projects, including federal grants, loan funds, and tax incentives.

It should be noted that the estimates of economic development resources presented in this chapter – resources which are not identified specifically in the City Budget – were developed by the HR&A Team in collaboration with staff from the relevant departments.<sup>10</sup> Staff resources are represented in full-time equivalents (FTE), since most economic development functions do not have dedicated full-time staff members working exclusively on those functions. The HR&A Team's estimates of economic development-related resources presented in this report should be understood as estimates only, and any critical values related to implementation of the HR&A Team's recommendations may need further verification during subsequent implementation stages of this initiative.

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<sup>10</sup> The HR&A Team conducted interviews with the Mayor's Office of Economic and Business Policy (OEBP) to understand the current functions supported by OEBP, but was not able to provide detailed budget estimates by function for the OEBP due to the variety and complexity of funding sources drawn upon to support these operations.

## Strategic Planning and Policy

Strategic planning and policy functions are principally performed by the Mayor's Office of Economic and Business Policy (OEBP), with analytical consulting services administered through the Office of Economic Analysis (OEA) and other mission-specific support provided by other departments and proprietary agencies. The Los Angeles County Economic Development Corporation (LAEDC) conducts research related to the City, but primarily focuses on the County economy as a whole. It was not possible to clearly document the scale of City resources devoted to this service, due to the diffuse way it is currently provided, other than part-time CAO staff coordination support for the Office of Economic Analysis, and its one-time allocation of \$250,000 for consultant services.

Insufficient resources devoted to this function have resulted in a fragmented, uncoordinated, and generally reactive approach to economic development, which also lacks citywide focus. For a new model to succeed, it must be endowed the resources and analytical capabilities to conduct citywide strategic planning and policy functions on a regular, proactive basis.

## Real Estate and Infrastructure Development

At least seven entities conduct real estate and infrastructure development services, including OEBP, the Departments of Transportation, Housing, Cultural Affairs, and the proprietary agencies. The HR&A Team estimates that at least 151 FTEs and \$105 million in resources are used for this function. Project resources and tools for this function include federal Community Development Block Grants (CDBG), HUD Section 108 Loan Program funds, and New Market Tax Credit allocations (\$50 million in 2012). Note that these resources do not include additional entities which play supportive roles in approvals and permitting, such as the Departments of Building & Safety and City Planning.

The elimination of CRA/LA left a significant organizational and functional gap in leadership and resources related to real estate development and services. Moreover, the City doesn't have a strategic citywide plan that establishes priorities for the distribution of resources. The new model must fill these gaps. It will need to provide the expertise to lead

priority projects for the City, shepherd projects through master planning and entitlements, and negotiate complex transactions with the private sector, coordinating actions to a citywide strategic vision.

## **Asset Management**

Currently, the General Services Department (GSD), Department of Transportation (DOT), Department of Cultural Affairs (DCA), LAWA, and Harbor manage City-owned real estate without a strategic approach on a portfolio-wide or even necessarily property-specific basis, and without incentives for maximizing either real estate-related revenues or strategic uses.

In recognition of the need for a more strategic approach to dealing with the large number of underutilized City-owned assets – including excess CRA/LA properties, parking lots and garages, and others – and a lack of means for tracking assets with economic development potential, the City Council recently approved a CAO recommendation to create a new four-person Asset Management Strategic Planning within the CAO's office using \$193,000 in funds from GSD.

For a new model to succeed, particularly in producing new revenues for the General Fund and accomplishing other economic development goals, the City must align its real estate assets with its economic development responsibilities, develop significant real estate expertise, and make a concerted effort to clarify policies, leadership, and authority related to the sale, lease, and redevelopment of City assets, including better coordination with proprietary departments. Assets with economic development potential need to be inventoried, and resources devoted to transforming them into revenue-generating projects for the City.

## **Transaction Services**

Transaction services are currently performed in a fragmented and ad hoc manner by individual City departments and proprietary agencies, by the CLA and CAO, and by City Council staff. There is no consistent or centralized resource for the incubation or negotiation of priority public-private transactions in the City today, other than by the CAO and CLA. In part, this is related to the elimination of CRA/LA, particularly with respect to financial analysis, deal structuring, and negotiations.

This has resulted in fragmented and uncoordinated actions by various City entities.

As in other high-performing cities like New York, a new economic development service delivery model should include underwriting and transaction analysis and negotiation expertise so that the City can strategically and effectively deploy existing City real estate assets and other resources, and assist in developing new financial resources to support economic development. This would also allow City departments, proprietary agencies, and Council Offices to focus on mission-specific tasks, rather than the details of case-by-case public-private deal making that may not be efficiently or consistently applied across the City organization.

## **Business and Industry Development and Services**

Today, OEBP and the Community Development Department (CDD) provide the vast majority of the City's business and industry development and services, with LAWA and Port of LA/Harbor Department providing some mission-specific services, and with support from regional and local economic development partners such as FilmL.A. The HR&A Team estimates that the City's strategic resources for this service category include a very small number of City staff, plus about \$5 million in CDBG funds, as well as the bonding capacity of the Industrial Development Authority under CDD.

With such few resources, the City is not strategically leveraging major clusters, and is losing its share in key industries. The City does not have incentives, assets, or other tools to help businesses offset certain cost disadvantages of doing business in Los Angeles. Current marketing activities focus narrowly on tourism and entertainment, but not on other industries similarly important to the local economy.

The new model must update the City's target industry strategy to inventory its current positioning in targeted industries as well as its competitive advantages, opportunities, and challenges, assign expert staff to the development and servicing of those industries, and ensure that the entire economic development apparatus – from the distribution of grants and incentives, to marketing campaigns, to the strategic use of real estate – is aligned with that citywide strategy.

## Small Business Services

OEBP and CDD also manage the City's small business services function. The HR&A Team estimates operating resources of at least 10 FTEs and \$1.1 million for this function. Project resources include CDBG funds (\$10.9 million in FY 2012), and are primarily dedicated to the BusinessSource Program, which provides six centers for small business services in underserved neighborhoods across the city.

Although interviews conducted by the HR&A Team found that BusinessSource has generally been viewed as a successful program, the business licensing and permitting process is still viewed as inefficient, marketing to small businesses is seen as lacking and, more importantly, interviews suggested that the lack of a citywide economic development strategy limits overall program effectiveness for the City. The new model must ensure that small business services strategically leverage the City's resources to align with citywide policies for business and industry development.

## Workforce Development

CDD and the Workforce Investment Board (WIB) lead the City's workforce development apparatus, with targeted services provided by Los Angeles Homeless Services Authority, LAWA, Harbor, and DWP. The HR&A Team estimates that CDD's operating resources for this function include 94 FTEs and \$11.6 million, and its project resources include CDBG funds (\$0.4 million) and Federal Workforce Investment Act funds (\$38.9 million), making workforce development the most robust dedication of resources within the City's economic development delivery structure.

In general, interviewees indicated that workforce development has a valuable, if quite robust, organization, but one that is disconnected from a strategic focus related to business and industry development. The new model, while continuing successes, should better align workforce development with economic development priorities, and should reevaluate the scale of this function as compared to others in the City's economic development apparatus.

## Business Improvement Districts

The Office of the City Clerk manages the City's BIDs. The HR&A Team estimates operating resources of approximately 14 FTEs and \$3.1 million for this function. Several interviewees agreed that the City's 39 BIDs are strong in advancing certain initiatives such as marketing and neighborhood services (e.g., security, cleaning). The former CRA/LA was a key force in leveraging BID relationships, but no longer exists.

Building on local interviews and national best practices, the new model should foster an environment for BIDs that makes them easy to form and valuable partners in achieving citywide economic development goals, while also providing strategic access to public project funds when they do implement projects of citywide importance.

## Tourism Development

The Los Angeles Tourism and Convention Board (LATCB), Los Angeles Convention Center (LACC), and LAWA are the City's primary tourism development players. Between them, the HR&A Team estimates that tourism development is performed by more than 141 FTEs with \$42 million in funding.

Interviewees suggest that this particular function has a strong and dedicated leadership structure that is currently in the process of being streamlined and enhanced. Case studies from other cities indicate that such an independent apparatus is the most frequent model of service delivery. Therefore, while these functions should continue to improve in their current structure, the new model should ensure LATCB, LACC, and LAWA efforts in tourism development dovetail with economic development initiatives of citywide importance.

## A DEEPER LOOK: FUNCTIONAL ANALYSIS OF ECONOMIC DEVELOPMENT RESOURCES

This section presents an analysis of organizational resources and activities related to each of the key economic development functions identified in this report. It provides a deeper look into the City of Los Angeles' performance of each of these functions, identifying key entities involved, describing their related resources and activities, and analyzing the state of service delivery.

## STRATEGIC PLANNING AND POLICY

Two City entities are currently responsible for performing citywide, cross-sectoral economic development planning and policy functions, including conducting economic research and analysis and developing the City's economic development policies.

**Mayor's Office of Economic and Business Policy (OEBP)** currently leads citywide economic development strategy and policymaking functions, and is active in promoting inter-departmental collaboration.

**Office of Economic Analysis (OEA)** was established by the City Council as a Pilot Program in the Office of the CAO in order to incorporate economic impact analysis into the City's legislative decision-making process. \$250,000 was made available in 2011 as a one-time award<sup>11</sup> to hire outside economic consultants to provide independent analysis of projects or ordinances that require such action (as established by the City Council). The OEA has selected 13 on-call economic consultants for these activities, including HR&A Advisors and ICF International. The CAO currently provides administrative support for the OEA via part-time assistance from two senior analysts and a Chief Administrative Analyst.

Several other departments conduct sector-specific economic research and strategy activities, including:

- **Los Angeles Harbor Department:** The Harbor Department's Planning Subdivision conducts economic research on commercial fishing and blast freezing opportunities that would help stimulate job growth and business opportunities. The HR&A Team estimates that approximately 6 FTE and \$1 million are allocated for these activities.
- **Cultural Affairs (DCA):** DCA conducts occasional research on the challenges faced by the creative industries in LA, and conducts market surveys of the City's artists. DCA does not allocate any resources specifically to this function.

Additionally, the Los Angeles County Economic Development Corporation provides research and analysis that addresses the City of Los Angeles and

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<sup>11</sup> This amount of \$250,000 was a one-time award provided with CD 13 AB 1290 Funds in 2011. No funding was provided in the current-year budget.

some of its subareas, but is more focused on the County as a whole.

## Functional Assessment

The modest level of resources devoted to strategic planning, policy, and economic research has resulted in a fragmented, uncoordinated, and generally reactive approach to economic development citywide.

**Lack of consistent vision:** One of the greatest frustrations that interviewees and survey respondents expressed with the City's economic development apparatus was the lack of a consistent citywide strategy. Some lamented that economic development policy was at the whim of the election cycle, but many more simply had a thirst for long-term policy priorities with clear short-term action plans.

**A reactive environment with limited resources:** The lack of clear responsibility for economic strategy and planning contributes to the unresolved tension between citywide strategic priorities and diverse local needs. Projects and initiatives are developed largely based on the priorities of individual Council Districts, and City's *de facto* economic development strategy is sometimes little more than the sum of these individual activities. The Mayor's office currently provides leadership and coordination, but the resources allocated are limited.

**Lack of City-specific economic research capacity:** The City of Los Angeles currently relies on outside parties for economic analysis (e.g. LAEDC, Chambers of Commerce) whose efforts are not necessarily targeted at City-specific needs or priorities, although some limited City-specific analyses are prepared by consultants (e.g., UCLA Anderson School and Beacon Economics) for long-range financial planning. When the City does lead economic analyses, they are often reactive – in response to a major project proposal, for example – rather than strategic. CRA/LA had strong staff capacities for economic development analysis (e.g. GIS mapping, market analysis, etc.) that were often supplemented by outside consultants. These capacities are now housed within the Department of City Planning.

**Funding for OEA nearly exhausted:** The Office of the CAO currently provides administrative support for OEA, but funding for consultant analysis is nearly exhausted. The functions of OEA should become permanent and transition to the new model.

## REAL ESTATE & INFRASTRUCTURE DEVELOPMENT

The City's real estate and infrastructure development function encompasses a broad range of economic development sub-functions. Key entities directly engaged in development activities include the following:

**Mayor's Office of Economic and Business Policy (OEBP):** OEBP is involved in real estate and infrastructure development projects of citywide importance by helping to cut through red tape and facilitate the development process.

**Department of Transportation (LADOT):** LADOT's division of Transit Planning and Land Use works with the Department of City Planning to develop traffic projections and makes related recommendations for updating the City's 35 Community Plans.

**Department of Cultural Affairs (DCA):** DCA is currently working on two anchor projects: (1) the Broadway Cultural Quarter (a mixed-use development affordable housing for artists); and (2) expansion of the CalArts area downtown, as a mixed-use development for businesses, nonprofit organizations, educational institutions, and individual artist live/work spaces.

**Los Angeles Housing Department (LAHD):** LAHD's Major Projects Division supports the development of multi-unit affordable rental properties by providing grant and loan funding to private and not-for-profit developers. Projects can be mixed-income and mixed-use, providing opportunities for commercial space and mixed-income tenants.

**Department of Water & Power (DWP):** DWP provides \$3 million in funding for the implementation of the Los Angeles River Revitalization Master Plan in partnership with the Bureau of Engineering. DWP also provides financial support for the construction of utility facilities and infrastructure through low-interest loans to businesses and developers.

**Los Angeles World Airports (LAWA):** LAWA has authority over a significant number of real estate assets, including many non-core mission properties. LAWA's Commercial Development Group is involved in the development of several such properties, including a project to develop 358 acres at LAX Northside into a



mix of retail, hotels, offices, community and open spaces, and educational facilities. The HR&A Team estimates that approximately 75 FTE in LAWA's Commercial Development Group are responsible for these real estate activities, although many of these staff are involved with real estate operations located within the airports.

**Port of Los Angeles:** The Port of Los Angeles has authority over significant property assets and is involved in a number of important development non-core mission real estate projects (e.g. Ports O' Call Village, Los Angeles Waterfront). The HR&A Team estimates that two FTE staff within the Harbor Department's Economic Development subdivision focus on these real estate development activities.

**Figure IV-2: Operating Resources Directly Related to Real Estate and Infrastructure Development**

Department	FTE	\$M	Key Function
LADOT	20	\$8.3	Master planning
DCA	2	\$1.0	Development
LAHD	46	\$10.4	Development
DWP	6	\$7.0	Development
LAWA	75	\$78.2	Development
Port of LA	2	\$0.5	Master planning
<b>Total</b>	<b>151</b>	<b>\$105.4</b>	

Additional entities which play an indirect, or supporting role in development include the following:

**Department of City Planning (DCP):** DCP develops the City's General Plan and its 35 Community Plans which guide land-use decisions and future development. DCP also processes land use regulatory approvals.

**Department of Building & Safety (DBS):** DBS enforces all ordinances and laws relating to construction, alteration, repair, and/or demolition, as well as all zoning ordinances for the City.

**The Development Services Case Management (DSCM) office** – which is housed at DBS and is comprised of case managers from the Departments of Building and Safety, City Planning, and Transportation, the Bureau of Engineering, and Los Angeles Department of Water and Power – assists complex projects in navigating the City's development review process.

## Project Resources & Tools

**Community Development Block Grants:** The City used \$4.7 million in CDBG funds in Program Year (PY) 2011-2012 to finance programs and projects related to real estate development. \$1.5 million of these CDBG funds were used to fund the citywide Proactive Code Enforcement (PACE) Program – a successful ongoing multi-agency collaboration between the City Attorney and the Department of Building and Safety to revitalize neighborhoods, increase public safety, reduce crime, and resolve code violations in low-income residential areas. \$3.2 million in this CDBG funding was also allocated to a program of Gap Financing for Real Estate Development Projects with Economic Development Benefits such as the District Square Retail Project, Avalon Park Plaza, Sylmar Mixed-Use Transit-Oriented Development, and the Thai Town Marketplace.

**HUD Section 108 Loan Program:** the Community Development Department (CDD) administers the Section 108 loan program, which fills financing gaps for companies or developers seeking to acquire or build on property for industrial or commercial projects. Section 108 loans typically fund a maximum of 30% of the project cost, so these funds leverage at least 70% private capital. On September 30, 2012, CDD's total Section 108 Loan portfolio totaled \$222 million, making it a substantial tool for economic development in the City of Los Angeles.<sup>12</sup>

**New Markets Tax Credits:** The New Markets Tax Credit Program is a federal tax credit designed to stimulate economic growth in low-income communities. New Markets Tax Credit funds are available for use only on qualifying real estate projects with total costs of \$10 million or more. Projects must be located in low-income census tracts. Los Angeles Development Fund (LADF), a not-for-profit Community Development Financial Institution, has received allocation to date totaling \$125 million, with \$50 million coming in April of 2012.

<sup>12</sup> CDD Loan Portfolio Management Quarterly Report, as of September 30, 2012.

## Functional Assessment

### **Fragmented activity with no central responsibility:**

While the summary of activities above shows a significant scale of activities and resources, there is a major functional gap in the City's economic development system: there is no centralized entity responsible for initiating and managing major development projects of citywide importance. The former CRA/LA was a central actor in advancing the City's priority real estate development deals and its staff had critical skills related to real estate analysis, financial analysis, mapping, and underwriting. The dissolution of CRA/LA has left an organizational gap related to real estate development, in terms of its master planning, project incubation, entitlements services for major development projects, and real estate financial analysis.

**Lack of master planning function:** There is no clear responsibility or strategic vision for master planning of projects of City-wide importance in the wake of the elimination of CRA/LA. Interviewees expressed a strong desire and need to provide master planning for proprietary agencies' non-core mission land that is well-positioned for economic development purposes (e.g. Wilmington Port-adjacent property).

**Entitlements and permitting inefficiencies:** CRA/LA used to be able to help influence many land use entitlements; with its dissolution, many projects are now in limbo. While the City's new entitlement and permitting processes improvements appear to be succeeding (e.g. the DSCM office, and the PACE Program, and a pending comprehensive update of the City's zoning code), many improvements still need to be made. There are still significant inefficiencies related to entitlements, and the City has not yet advanced the use of technology to streamline permitting processes.

## ASSET MANAGEMENT

There is currently a gap in leadership and organizational capacity for strategic management of City-owned land and buildings with significant economic development potential.

**General Services Department (GSD):** GSD provides asset management for all City-owned properties through its Building Asset Management division. GSD currently manages two types of assets: (1) structures that house City services including City Hall, municipal office buildings, courts, and other facilities related to police, fire, sanitation, and schools; and (2) strategic assets with significant economic development potential (e.g., parking lots and garages, L.A. Mall, etc.). GSD's Building Asset Management Division has 18 staff and a budget of \$32 million, but the majority of these resources are dedicated to management of core City properties and relatively few to 'strategic' asset management. The CAO and GSD have agreed that the department will be releasing \$193,000 of the Building Asset Management Division's budget to finance the proposed new Asset Management Strategic Planning unit to be temporarily located in the CAO's Office. The CAO has estimated that 4 FTE are initially required for this interim function. The purpose of this unit is to identify opportunities, provide the framework for and perform an analysis of opportunities for the City to leverage its real estate assets for economic development, a precursor to the new model recommended by this report.

**Cultural Affairs (DCA):** DCA manages a handful of real estate assets that were formerly under development by CRA/LA (e.g. a theater in San Pedro).

**Proprietary Agencies:** LAWA and the Port both control a significant number of non-core real estate assets that could be better leveraged for citywide economic development benefits.

**Figure IV-3: Operating Resources for Strategic Asset Management**

Department/Entity	FTE	\$M
GSD*	4	\$0.2
DCA	2	\$0.5
<b>Total</b>	<b>6</b>	<b>\$0.7</b>

\*Represents the \$193,000 and 4 FTE described above

## Functional Assessment

**Underutilization of City assets:** There is broad consensus that the value of the City's real estate assets are not currently being maximized due, in part, to limited organizational capacity at GSD. This underutilization is likely depriving the City of significant amounts of unrealized revenues from potential redevelopment and repositioning projects.

**Lack of citywide strategy and authority:** There is currently no citywide strategy to leverage assets for economic development. The City needs a coordinated policy approach for the disposition of City assets, and clarity on decision-making authority.

**Need to inventory strategic assets:** Several interviewees noted a need to identify and catalog City properties that are well-positioned for economic develop initiatives, but GSD is hesitant to accept the unfunded mandate of developing this database, given its lack of authority over assets controlled by proprietary agencies.

In July 2012, the General Services Department issued a Request for Proposals for a consultant to assist the City in performing a comprehensive review of its asset management services and recommend changes. The analysis will include the effectiveness of GSD in meeting its assigned functions and make recommendations for improvements, and how GSD's performance compares to industry standards. Other tasks include reporting on the feasibility of centralizing and/or identifying public/private partnership opportunities for aspects of the City's real estate functions; analysis of procedures and performance metrics; analysis of the City's current Strategic Real Estate Plan ; a thorough inventory of the City's Council-controlled real estate portfolio and utilization; analysis of the City's current real estate brokerage practices; analyze the City's existing surplus sales policies; and analyze and make recommendations about the City's current Asset Management Information Technology (AMIT) systems, technology, and processes.

## TRANSACTION SERVICES

There is presently no consistent function for structuring and negotiating economic development transactions on behalf of the City, unlike some other cities representing best practices like the City of New York, where NYCEDC has its own transaction services division.

Transaction services are currently performed in a fragmented, ad hoc manner, by whichever City department or entity is involved or, in some cases, by staff from Council Offices. In the midst of this institutional vacuum, CLA staff occasionally assists with transactions on individual real estate deals. Funds are allocated on a case-by-case basis and, since the CLA operates under the City Council's budget, staffing and resources for these ad hoc transaction services sometimes come from the CLA and sometimes from the Council Offices.

## Functional Assessment

**Lack of former CRA/LA capacities:** The CRA had strong experience related to structuring and negotiating real estate deals and staff skilled in financial analysis and underwriting. As one Council Deputy put it, staff at the CRA "knew how to call 'bull' on developers."

**Inefficiencies in organizational structures:** Overall, transaction services are highly fragmented and uncoordinated, and significant efficiencies could be gained by consolidation this function in a single organizational entity. Not only would such a centralized function ensure the City was getting the best deal on all of its real estate transactions for Council-controlled properties, it would also be able to become a service provider for proprietary agencies and other public players seeking deals with the private sector.



## BUSINESS AND INDUSTRY DEVELOPMENT AND SERVICES

Citywide industry development is currently led by a small team at OEBP. CDD staff administers a range of project resources and tools to support industry development and services, including CDBG grants for business incubators and IDA bonds for manufacturing industry attraction and retention incentives.

**Mayor's Office of Economic and Business Policy (OEBP):** OEBP plays a critical leadership role as a convener around target industry development. OEBP conducts best practice research, assembles sector-specific business councils (e.g. entertainment, innovation, aerospace), and promotes coordination with the Proprietary Agencies through the Mayor's oversight role.

**Community Development Department (CDD):** CDD plays an important role in administering project funds for industry development, but does not specifically allocate operating resources to this function. Staff members related to this function are funded by federal grants, which they administer, as described later in this chapter.

### Project Resources & Tools

**Community Development Block Grants (CDBG):** CDD's Economic Development Division administers a number of CDBG grants in support of target industry development. In Program Year 2011-2012, \$5 million in CDBG funds were used for industry development, attraction, and retention activities, including:

- **Clean Tech Business Incubator**, which received \$1 million in CDBG funding in Program Year (PY) 2011-2012;
- **Port Tech Incubator**, which received \$1.5 million in CDBG funds used to support the creation of a Local Maritime Business Incubator program, in collaboration with the Los Angeles Harbor Department, several local universities, and the South Bay Development Corporation.
- **Business attraction and retention incentives**, for which the Fifth Year Action Plan for the City's Consolidated Plan lists \$2.5 million in CDBG funds

allocated for business attraction and retention activities.

**Figure IV-4: CDD's CDBG-Funded Programs for Industry Development**

Grant-Funded Program	FY'12 \$M
Clean Tech Business Incubator	\$1.0M
Port Tech Incubator	\$1.5M
Business Attraction and Retention Incentives	\$2.5M
<b>Total</b>	<b>\$5.0M</b>

### Los Angeles Industrial Development Authority (IDA):

The IDA was formed in 1982 by the Los Angeles City Council to offer taxable and tax-exempt financing for commercial, industrial, and non-profit development projects at favorable interest rates. These bonds are offered as an incentive to companies involved in manufacturing and processing activities to relocate to Los Angeles, or to remain and expand in the City. Since its inception, the IDA has directly issued or facilitated over \$2.3 billion in bond issues.

### Functional Assessment

**Need for strategic industry targeting:** The City is not maximizing the value of its current leading economic clusters, and it risks losing its share of key industries. Target industry strategy is currently based on outside research and analysis, rather than tightly focused on the City's characteristics and priorities.

**Need for creative business attraction initiatives:** The Mayor's business team reportedly does a good job of reaching out to industry, but the City does not currently have significant incentives or assets to offer to offset the certain cost disadvantages of doing business in the City.

**Lack of industry-focused marketing:** Current marketing activities focus exclusively on tourism and entertainment, and there is no coordinated effort to market the City to business and highlight its advantages. The City is not being represented at key industry conventions and trade shows.

## SMALL BUSINESS SERVICES

The Mayor's Office of Economic and Business Policy provides leadership and policy guidance related to small business development, and CDD implements the City's small business services, using funds from CDGB.

**Mayor's Office of Economic and Business Policy (OEBP):** OEBP is often the first place that local small businesses contact when they are seeking assistance from the City. In addition to playing this critical front-line role, OEBP provides citywide leadership and policy guidance for the BusinessSource and Minority Business Center – Los Angeles programs.

**Community Development Department (CDD):** CDD's Economic Development Division administers the City's BusinessSource Center program which provides startup ventures and current small business owners various cost effective tools to make their business a success. The HR&A Team estimates that approximately 10 FTE are devoted to this function at CDD, for which CDBG grants of \$12M fund Center activities, with \$1.1M going to operating expenses, and \$10.9M going to contractors and project expenses.

**Figure IV-5: Operating Resources for Small Business Services**

Operating Resources for Small Business Services	FTE	\$M
CDBG Resources for CDD Operating Budget	10	\$1.1
<b>Total</b>	<b>16</b>	<b>\$1.6</b>

**Figure IV-6. Grant-Funded Small Business Services Programs, FY12**

Grant-Funded Program	FY'12 \$M	Source	Dept.
LA BusinessSource	\$10.9M	CDBG	CDD/EDD
<b>Total</b>	<b>\$10.9M</b>		

## Functional Assessment

**Successful programs:** Generally, it appears that BusinessSource has become a valuable program for small businesses in the City, with each center offering its own particular advantages.

**Alignment with broader economic development strategy:** There is a general perception among interviewees that small business services in the City are fragmented and not well targeted, marketed, or aligned with citywide strategic priorities. Some also noted that although BusinessSource centers were in underserved communities, some community members traveled to centers outside their neighborhoods for services better tailored to their needs.

**Case management assistance with permitting:** Despite improvements, small business owners face long and cumbersome processes for business licenses and permits. Small business programs should be better coordinated with the Department of Building & Safety, and Case Management functions should be expanded for small businesses.

**Marketing and outreach:** Despite a number of successful programs (e.g. Restaurant & Hospitality Express), there is still a lack of awareness among small businesses of many of the City's services. Improvements should be made in the dissemination of information and marketing of small business services.

## WORKFORCE DEVELOPMENT

CDD's Workforce Development Divisions is the key departmental actor in the City's workforce development system.

**Community Development Department (CDD):** CDD's Workforce Development Division administers over \$50 million per year in Federal Workforce Investment Act (WIA) funds in conjunction with the City of Los Angeles Workforce Investment Board (WIB). The WIA allows Statewide and local organizations to access Federal funds for the development of workforce development programs which offer services to job seekers, workers who have been laid off, youth, incumbent workers, new entrants to the workforce, veterans, people with disabilities, and employers. These employment services are provided through a network of One-Stop Centers, also known as WorkSource, YouthSource, or FamilySource Centers.

**WorkSource Centers:** The WIB's 21 WorkSource Centers help over 170,000 people per year to find jobs. In 2011, 1,400 LA-based businesses listed their employment openings with the WorkSource Centers, across a diverse area of fields, from manufacturing and industry to childcare, healthcare, and international trade. WorkSource centers provide applicants with skills assessments, listings of job openings that are customized to their abilities and needs, resume coaching, training, and job placement assistance.

**Youth Services:** Summer and year-round youth programs give young Angelenos the opportunity to attain employment skills and transition from high school to secondary education, employment, or both. Young people who enroll in the program can access services including tutoring, internships, job shadowing, work experience, adult mentoring, and counseling at local centers, called YouthSource or Youth Centers (previously known as OneSource).

CDD administers \$50.9 million in WIA and CDBG resources related to these workforce development activities, with \$11.6 million going toward CDD operating expenses and \$39.3 million being dedicated to project expenses and contractors, as detailed in the following table.

**Figure IV-7: CDD Resources for Workforce Development**

Resource	FTE	Operating Budget (\$M)	Project Resources (\$M)
CDBG	1	\$0.2	\$0.4
WIA	93	\$11.4	\$38.9
<b>Total</b>	<b>94</b>	<b>\$11.6</b>	<b>\$39.3</b>

**Los Angeles Housing Services Authority (LAHSA):** LAHSA administers a Job Training and Development Program for homeless persons to provide tools to attain stable long-term housing. The budget for the program is approximately \$4.3 million per year, and 0 FTE are specifically allocated to this program.

**Proprietary Departments:** The Proprietary Departments also contribute to the City's workforce development efforts. The Harbor Department partners with the Mayor's Office on developing training programs for local hires, mostly in support functions. LADWP requires contractors to devote 3% of their direct labor costs to providing job training and opportunities for the unemployed and under-employed. LAWA's Business and Job Resources Group works closely with the CDD and Workforce Investment Board to encourage small business and local hires on LAWA property.

## Functional Assessment

**Extensive resources:** According to HR&A Team estimates of 94 FTE and more than \$50 million devoted to workforce development, the City of Los Angeles has a very robust apparatus for workforce development. In comparison, the New York City Department of Small Business Services has 66 staff members for workforce development and operates 19 workforce development centers around the city.

**Decreased funding:** Decreased Federal and State resources for workforce development programs has meant that workforce entities need to do more with less.

**Episodic partnerships:** Collaboration with workforce partners (e.g. community colleges, employers) has been largely episodic and focused on one-off projects. There is broad consensus that there should be more consistent coordination with these partners.

## BUSINESS IMPROVEMENT DISTRICTS

Business Improvement Districts (BIDs) are geographically defined areas in which local businesses jointly fund activities such as economic development, safety, maintenance, and marketing services for that district. The City Clerk's Office currently administers the City's BID Program. The Mayor's Office of Economic and Business Policy, the Council Offices, and CDD are all also involved in coordinating with the BIDs.

**City Clerk:** The City Clerk's Administrative Services Division currently houses a Special Assessments Unit which manages the BID program and provides assistance and information to interested parties. The Office of the City Clerk contracts with nonprofit organizations to manage individual BIDs.

The City Clerk's current responsibilities relative to the Citywide BID Program are defined in terms of three activity categories): (1) preliminary formation activities (prior to district establishment- investigative process) activities; (2) legislative establishment activities (the legal approval process); and, (3) ongoing administrative activities (once the district has been established.

The role of the Office of the City Clerk can also be defined in terms of activity subgroups, including: direct district development assistance; comprehensive legislative assistance; full billing and disbursement assistance; extensive public relations assistance; and continuous contract compliance assistance.

services (e.g. security, cleanup), but they could be used in a far more proactive way and leveraged for citywide impact. CRA/LA was a key force for leveraging BID relationships and, since its dissolution, these activities are no longer well-aligned.

**Figure IV-8: Operating Resources Related to BID Administration**

Department/Entity	FTE	\$M
City Clerk Administration of BIDs	14	\$3.1
<b>Total</b>	<b>14</b>	<b>\$3.1</b>

## Functional Assessment

**Valuable partners:** The prevailing sentiment from the Team's interviews was that BIDs are one of the stronger players in advancing economic development initiatives in the City of Los Angeles.

**BID activities could be better leveraged for citywide impact:** BIDs are effective in augmenting specific ED functions (e.g. marketing) and providing needed

## TOURISM DEVELOPMENT

The City has a robust tourism development system, with several entities devoting to resources to marketing and promotional campaigns to increase business, convention, and leisure visitation.

### **Los Angeles Tourism and Convention Board (LATCB):**

The LATCB (formerly LA INC.) is a destination marketing organization contracted by the City to market Los Angeles as a convention, meetings, and leisure travel destination. It is headed by a 35-member elected Board of Directors representing a cross-section of the Los Angeles business community impacted by LA's travel and tourism industry. Programs and policies approved by the voluntary leadership are carried out by a full-time professional staff of 82 FTE, with an annual budget of \$26.8 million. LATCB receives funds from tourism marketing district (primarily hotels), Transient Occupancy Tax, membership organizations, and sponsors. LATCB also receives some funds from LAWA. The majority of LATCB funds are earmarked for selling meetings and conventions, and marketing Los Angeles as a destination.

**Los Angeles Convention Center (LACC):** The LACC is owned and operated by the City of Los Angeles and has a five-member advisory commission that advises and consults with the General Manager on the operation and maintenance of the LACC. However, the Commission has neither direct oversight nor authority over the LACC operations. LACC's marketing efforts for the Convention Center focus on local events that require less than a 24-month booking window and are typically non-citywide events. By contrast, LATCB's marketing efforts focus on citywide events that generate significant hotel room nights and Transient Occupancy Tax. 9 FTE in LACC's sales team are responsible for the promotion, marketing, and booking of the Convention Center as a venue for non-citywide events. The budget associated with this function is approximately \$715,000 in FY 2012.

**Los Angeles World Airports (LAWA):** LAWA works to maintain Los Angeles airports and promote the City as a world class destination. LAWA is in the midst of a seven-year, \$4.1 billion dollar capital improvement campaign to improve customer experience at its three airports, including the addition of higher-end retail. LAWA staff estimate that a total of 50 FTE and \$14.5

million per year are allocated to activities broadly related to tourism development. While all of these activities may not be narrowly economic development-related, they are presented here to suggest catalog the extent of the City's tourism development apparatus.

**Figure IV-9: Operating Resources for Tourism Development**

Department/Entity	FTE	\$M
LA Tourism & Convention Board (LATCB)	82	\$26.8
LA Convention Center (LACC)	9	\$0.7
LAWA	50	\$14.5
<b>Total</b>	<b>141</b>	<b>\$42.0</b>

## Functional Assessment

The tourism development function has a strong and dedicated leadership structure that is currently in the process of being streamlined and enhanced.

**Proposed Enhanced Governance:** The LACC and the LATCB currently report to separate City offices – the Office of the CAO administers the City's agreement with the LATCB, and the General Manager of the LACC reports to the Mayor and advises the City Council on matters that require legislative action. According to the CAO, "this lack of a streamlined governance structure has resulted in poor accountability, conflicting objectives and sporadic collaboration."<sup>13</sup> Thus, the CAO has recommended the creation of the new Board of Commissioners, streamlining the governance structure, and requiring the LATCB and LACC to report to one entity which would help ensure that the City operates toward a unified mission, which is "making the LACC a top tier convention destination".<sup>14</sup>

<sup>13</sup> Los Angeles Convention Center Proposal For An Enhanced Governance Structure, Report from the Office of the CAO to the Offices of the Mayor and City Council, August 3, 2012.

<sup>14</sup> Ibid.

## FEDERAL & STATE RESOURCE MANAGEMENT

In support of the functions listed on the previous pages, there are a handful of key entities in Los Angeles that are responsible for the administration of federal or state resources for economic development purposes. CDD oversees the vast majority of these resources, specifically CDBG and WIA funds, as well as use of IDA bonds; LAHD administers a range of grants for affordable housing development which have relevance for economic development initiatives; Cultural Affairs provides grants for public art projects; and LADF manages the New Market Tax Credit program.

**Community Development Department (CDD):** CDD oversees \$612 million in total financing capacity and targets these resources toward development efforts in low- to moderate- income areas of the City. CDD's Economic Development Division (EDD) administers a wide range of public financing tools—including CDBG, HUD's Section 108 Loan Program, and Industrial Development Authority bonds—that are used to fund ED functions such as real estate development, industry development, and small business services. CDD's Workforce Division administers Federal Workforce Investment Act funds that are used to finance workforce development activities. Details of the specific activities funded through these Federal programs are provided in each of the relevant function-specific sections of this chapter.

CDD uses a portion of the CDBG and WIA grant funds it administers to finance the department's operating expenses. CDD estimates that \$7.8 million in operating resources (\$4.7 million from WIA and \$3.1 million CDBG) were allocated in FY 2012 to fund 51 FTE and operating expenses related to the management and administration of these federal dollars.

**Los Angeles Housing Department (LAHD):** LAHD's Home Ownership & Preservation Division administers a range of HUD funds (CDBG, HOME, LEAD, and NSP) that are used to provide low-cost loans and grants for the purchase and rehabilitation of single family and multi-unit residential properties. The HR&A Team estimates that 32 FTE and \$6.2 million in operating resources are associated with these housing purchase and preservation functions in FY 2012.

**Department of Cultural Affairs (DCA):** The HR&A Team estimates that DCA allocated 2 FTE and \$1.1 million in FY 2012 to administering grants to nonprofit organizations for arts projects in public and private buildings.

**Los Angeles Development Fund (LADF):** LADF is the designated manager of \$125 million of New Market Tax Credits. In partnership with other City community development programs, LADF offers financing products with terms that are significantly better than market. Until recently, LADF was managed by and worked collaboratively with the former Los Angeles Redevelopment Agency on choosing and financing development projects. According to HR&A Team estimates, LADF allocated 2 staff and \$1.1 million for this function in FY 2012.

**Figure IV-10: Operating Resources for Public Financing Distribution**

Department/Entity	FTE	\$M
CDD	51	\$7.8
Housing	32	\$6.2
Cultural Affairs	2	\$0.5
LADF	2	\$1.1
<b>Total</b>	<b>87</b>	<b>\$15.6</b>

## Functional Assessment

**Strategic use of public resources:** While the level of financing is significant, it is not coordinated around a citywide economic development strategy. Allocation of these public funds could be leveraged and made more effective through oversight by an entity responsible for comprehensive economic development and strategy.

**Decrease in funding for economic development:** The loss of CRA/LA-specific funding and cutbacks to other federal funding programs have reduced the amount of public financing available for economic development.

**Lack of capacity for resource development:** The dissolution of CRA has left a gap in the City's capacity for preparing grant proposals and administering grant funds. City efforts to track and obtain new grant funding resources are uncoordinated.



## AN APPARATUS IN NEED OF CHANGE

In summary, the HR&A Team's detailed analysis reveals that the City's current economic development apparatus is insufficient to meet Los Angeles' economic development needs both now and in the future. In particular, the HR&A Team found a delivery mechanism that is disjointed, riddled by gaps in the provision of critical economic development services, and lacking the resources necessary to overcome those challenges. In particular, the following existing conditions should form a local basis for the development of the new model:

- The Mayor's office and CDD have the greatest responsibility for fulfilling the City of Los Angeles' economic development agenda, but are severely limited in their resources for carrying out economic development initiatives.
- Workforce development and small business services represent the vast majority of the City's economic development apparatus today, with workforce development in particular operating on a much more robust level than other U.S. cities.
- The City's real estate assets, many of which are underutilized, as well as its utility infrastructure – two critical sources of economic development funding in other cities across the country – are not sufficiently devoted to fulfilling a citywide economic development strategy, and therefore cannot be leveraged as the substantial revenue-generators that they could be.
- In the wake of the elimination of CRA/LA, the City has precious few tools and resources for one of its historically strongest economic development functions – redevelopment and revitalization.
- Proprietary agencies are important economic development engines for the City, but could be more directly engaged with the City to advance citywide economic development priorities and provide resources to fulfill those goals, while also gaining the flexibility to focus more on their core missions.
- The City has a very substantial tourism development function that is currently being reformed to work

more effectively within its own public-private organizational model.

- All of the City's economic development efforts suffer from a lack of a citywide economic development strategy and consistent prioritization of economic development activities by City leadership.

## OPPORTUNITIES FOR IMPROVING ECONOMIC DEVELOPMENT ORGANIZATION

The HR&A Team's analysis of the City's current economic development apparatus on a function-by-function basis exposed the disjointed nature of functional responsibilities that create an impediment to a comprehensive citywide economic development strategy.

Some organizations contributing to economic development today simply need better centralized leadership to prioritize citywide initiatives, while others require new operational leadership with expertise and focus in their respective economic development service areas, while others are nearly nonexistent in the existing City structure – a result either of the elimination of CRA/LA or the lack of an institutionalized focus on citywide economic development.

Based on this analysis, as well as national best practices derived from HR&A's experience and the case studies presented in this report, the HR&A Team recommends the following improvements to the existing organizational structure:

**Healthier citywide coordination:** The following economic development functions are in need of better guidance from citywide leadership, but should remain within their existing operational structures (or their new ones already under development):

- Tourism development and the convention center; and
- Support functions for real estate and infrastructure development, including those of the departments of City Planning, Transportation, Building and Safety, Recreation and Parks, and Cultural Affairs, as well as those of the proprietary agencies.

**Leadership and accountability dedicated to economic development:** The following economic development functions are in need of a leadership structure more dedicated to citywide economic development than community development, where their implementation currently resides:

- Small Business Services;
- Workforce Development;
- Business & Industry Development and Services; and
- Business Improvement Districts

**New economic development services:** The following economic development functions, widely seen as necessary for successfully supporting the local economy in other major American cities, are currently absent or significantly lacking in the City of Los Angeles and should become new foci for the new economic development service delivery model:

- Strategic Planning & Policy Development;
- Real Estate & Infrastructure Development;
- Strategic Asset Management; and
- Transaction Services & Financing

The HR&A Team's recommendations for addressing these organizational deficiencies are described in the next chapter.



## OPPORTUNITIES FOR FUNCTIONAL EXPANSION AND SELF-SUFFICIENCY

Despite a general under-resourcing of economic development functions throughout the City, Los Angeles has substantial opportunities to fund significantly more robust activities. Many of these sources, in fact, present opportunities for direct value added cycles of investment, in which strategic use of City resources leads to an increase in City revenues directly as a result, creating the type of self-sustaining economic development platform that fuels six of the eight cities that the HR&A Team analyzed.

In particular, the City should be able to look to the following City-controlled revenue streams, programmatic resources, and physical assets that either grow or diminish in value as the direct result of economic development activities, or directly fund economic development activities, to fill the gaps in resources that the HR&A Team identifies as critical to institutionalizing a prioritization of economic development in underserved neighborhoods and throughout the city:

- Property taxes generated by surplus properties formerly controlled by the CRA/LA;
- Space lease, ground lease, and sale revenues from private sector occupants or purchasers of City-owned properties;
- Project-specific revenues, comprised of new, incremental City tax revenues (e.g., property tax, sales tax, transient occupancy tax, utility user's tax, business tax, parking tax) resulting from new development;
- Revenues from the more efficient utilization and/or redevelopment of or transfer of air rights from municipal surface parking lots and structured garages;
- Department of Water and Power grants and loan funds for economic development activities;
- Financing and incentives resources, such as tax-exempt bond financing and New Markets Tax Credits; and

- State and federal grant and loan funds.

Additionally, with the establishment of a new organizational model, there will likely be opportunities to create efficiencies in the City's current deployment of resources and to attract additional seed funding from the private sector. The City should seek to optimize the redeployment of existing resources and to maximize private sector contributions, but should recognize that such private contributions, if any, are likely to be limited to seed capital and should not deplete private resources currently being provided to the City's existing nonprofit economic development partners.



## **V. A NEW MODEL**

“We need a lean and mean structure – one that is flexible and fast, agile and smart.”

– Economic development stakeholder

“The only glue that can hold the agencies together is the Mayor’s office.”

– Senior City official

“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

## BUILDING A WORLD CLASS ORGANIZATION

In order to rectify the shortcomings of the City's existing economic development apparatus, as presented in Chapter IV, and to better position the City to capitalize on its many economic assets and resources, the HR&A Team recommends the creation of a new Economic Development Department (EDD) and a separate, independent, new not-for-profit economic development corporation with a Board of Directors comprised primarily of private sector leaders.

The new EDD would contract with the new Citywide Economic Development Nonprofit (CEDN) for implementation of specified economic development services related to all three functional divisions of the City's economic development structure including real estate services, business and industry services, and strategic planning support. The Mayor would provide economic development policy leadership for both entities, subject to appropriate oversight by and accountability to the City Council. This structure is similar to economic development models in other major U.S. cities where they have been highly successful, including New York City, San Diego, Philadelphia, and Cincinnati.

Relationships among existing City departments and proprietary agencies would also be clarified in relation to the City's economic development functions under this new approach, ensuring that citywide economic development services would be performed efficiently, comprehensively and coherently.

The new EDD and CEDN will initially function and need to be incubated as startups. They should have an entrepreneurial character and culture that attracts the top-tier human talent looking for the next great opportunity to improve the City of Los Angeles. They should set clear economic development goals and consistently demonstrate their progress, performance and value-for-money in achieving these goals. They should be structured to grow over time through a combination of government funding, private capital, and earned income as they demonstrate the value of their services to the electorate and business community.

The newly established entities would assume certain functional responsibilities from existing City departments, although they would also provide new

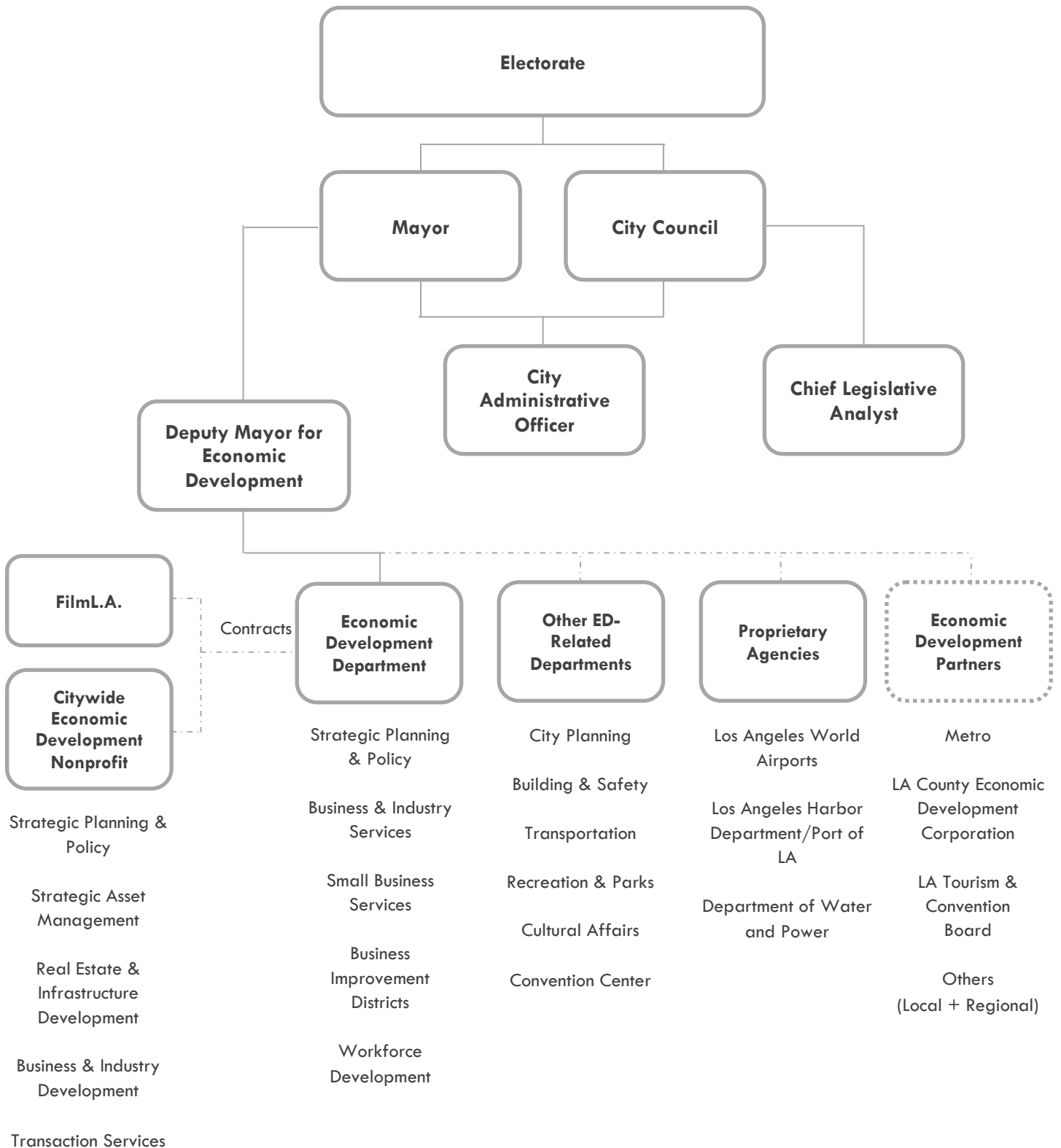
services and be responsible for the development of new revenues to sustain their activities as well as to create added value for the City of Los Angeles.

As well-recognized by nearly every interviewee, any new organizational model for citywide economic development, no matter how efficient, will only be effective if it has broad political, business and community support. Moreover, its effectiveness will be significantly dependent upon the creation of a thoughtful strategic economic development plan for the City. The substance of that plan is beyond the scope of this report, but an early charge to the new entities recommended here is preparation of such a plan for adoption by the Mayor and the City Council.

The HR&A Team's analysis of comparable models in other cities, as well as firsthand experience in establishing precedent-setting economic development organizations, demonstrate that new economic development models take time – usually years and sometimes decades in larger, more complex cities – to fully mature and produce visible results. By establishing a new economic development model today, the City will be well-equipped to leverage advantages and contain the effects of downturns during future economic cycles, resulting in lasting and transformative benefits for the City, its residents, businesses and visitors.

The remainder of this chapter specifies the HR&A Team's recommendations for the organization of a new economic development delivery structure for the City of Los Angeles.

**RECOMMENDED ECONOMIC DEVELOPMENT ORGANIZATIONAL CHART**  
(Figure V-1)



## ORGANIZING THE NEW MODEL

Building upon the City's historic successes and failures related to structuring itself for delivery of economic development services, best practices from cities across the United States, and common themes from stakeholder interviews and surveys, the HR&A Team recommends that the City of Los Angeles enable the creation of two new entities and the enhanced responsibility of a third, all narrowly focused on developing and delivering economic development services and coordinating key supporting actors:

- **A new Economic Development Department (EDD):** This new department, with a highly-experienced economic development and business professional appointed as General Manager by the Mayor, with the concurrence of the City Council, would be the City's primary internal economic development delivery entity. It would establish the citywide economic development strategy at the direction of the Mayor and with guidance from the City Council, manage the delivery of the City's business and industry services, direct the development and distribution of state and federal resources for economic development, and contract with the CEDN for services that can maximize the City's return on its economic development investments. The EDD would also assume management of the contract with FilmL.A., the City's nonprofit charged with processing filming permits.
- **A new Citywide Economic Development Nonprofit (CEDN):** In view of the need for greater expertise and flexibility in economic strategy and transactions, attraction of talent, delivery of real estate services, and accountability in economic development, this newly-established private, independent, not-for-profit service provider would be solely devoted to advancing a citywide economic development strategy that promotes government efficiency and leverages public-private expertise and resources. This transaction-oriented organization would manage revenue-producing and surplus City assets subject to a contract with the EDD, be charged with maximizing the strategic positioning of those resources, provide economic development services to other City departments, and structure public-private partnerships as needed to advance projects of citywide importance. Its

Board would represent the finest civic and business leaders, and its President would be one of the most sought-after positions in the economic development profession.

- **A clearly-defined Deputy Mayor for Economic Development:** For a new model of economic development to work in the City of Los Angeles, the Mayor and City Council must recognize that although the EDD and CEDN will be the City's new key entities for delivering economic development services, there will continue to be supporting entities (related City departments and priorities) that will need direction to act in alignment with the EDD and CEDN to set the stage for successful implementation. Ultimately, as demonstrated by best practices nationally, the City's economic development apparatus – including the two new entities, other economic development-related departments, proprietary agencies, and economic development partners – must be coordinated by a single economic development executive. The Deputy Mayor for Economic Development, fulfilling a new directive from the Mayor, would be the individual responsible for coordinating the development and implementation of the citywide economic development strategy, and ultimately accountable for the City's economic performance and development of the tax base. This individual would ensure policy alignment among City departments to advance priority projects and initiatives. The Deputy Mayor's primary tools would be the EDD and CEDN, as well as the ability to convene all of the economic development entities within and external to the City organization to work together for a common purpose.

In an alternative structure recommended by the HR&A Team, the Deputy Mayor for Economic Development would serve a dual role as both the General Manager of EDD and Deputy Mayor. Under this alternative, the appointee would report directly to the Mayor, but would also be subject to the oversight of the City Council in the same manner as other department heads. This dual role as both a line manager and policy advisor requires finding a highly-qualified economic development executive, such that both the Mayor and City Council have confidence and are fully invested in that person's success. This model has precedents including the Deputy Mayor for Economic



Development/Director of Commerce in Philadelphia as well as the current approach in Los Angeles for coordination and management of housing functions.

Regardless of which option for this position may ultimately be approved, the organizational chart for the new model of economic development in the City of Los Angeles would have this coordinating Deputy Mayor for Economic Development at its core, marshaling resources from across City government and the private sector (see Figure V-1: Recommended Economic Development Organizational Chart).

## ECONOMIC DEVELOPMENT DEPARTMENT

### Responsibilities

The new Economic Development Department of the City of Los Angeles should be responsible for those services that are traditionally governmental in nature and that are principally “service” rather than “transaction” oriented. Some of these services are currently being performed by the Community Development Department (CDD), but should be transferred to this new EDD to provide a clearer focus on results and cost-effective service delivery. Note that this report recommends a transfer, but not a reduction, in CDD staff who currently perform the functions identified for the new EDD.

The HR&A Team recommends that the EDD be responsible for the following functions of the new economic development model from the outset:

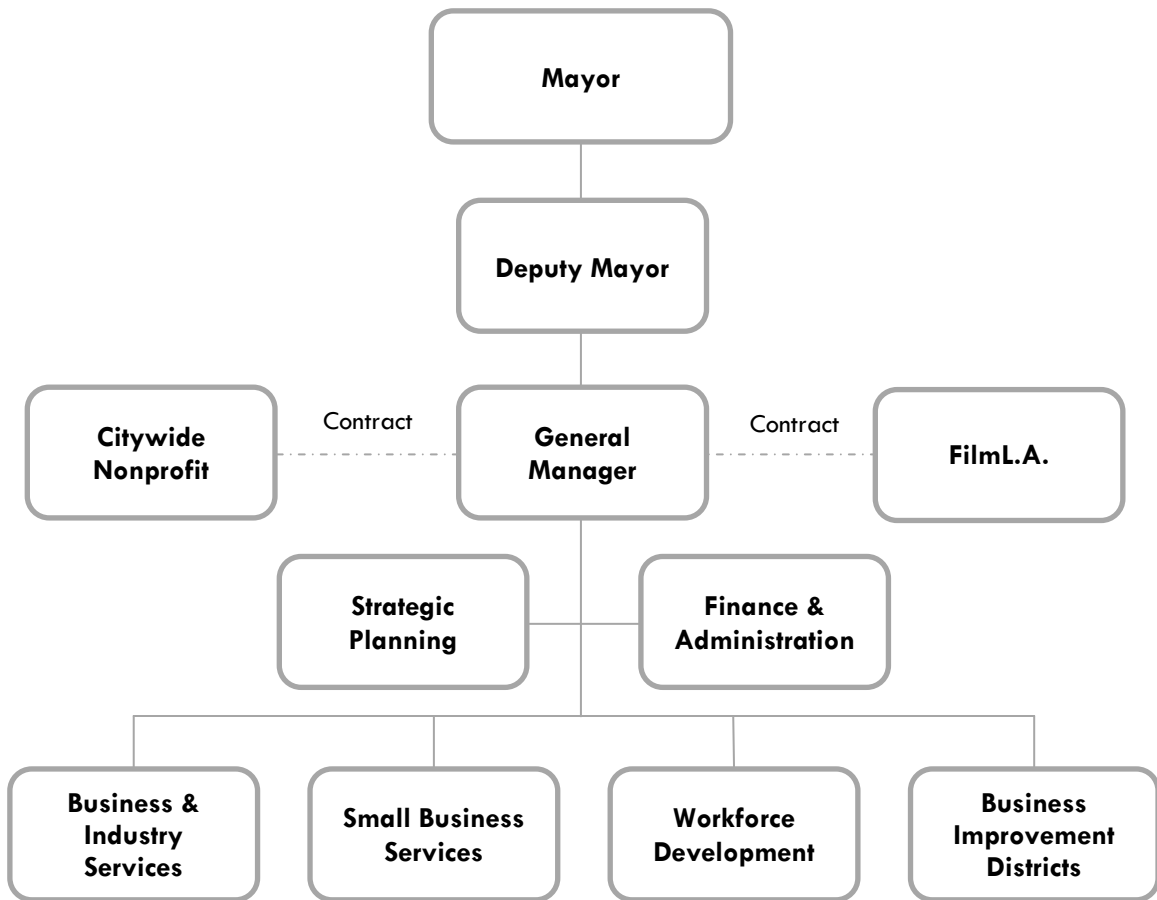
- **Strategic Planning & Policy Development:** The new EDD should produce the City’s citywide economic development strategy under the direction of the Deputy Mayor for Economic Development and through coordination with Council Offices, the CEDN, economic development-related departments, proprietary agencies, and the City’s economic development partners. It should direct CEDN to provide City-specific research and analysis to inform its policy recommendations and action plan, which would ultimately be approved by the Mayor and City Council.
- **Business & Industry Services:** When new or existing companies and industry groups with citywide economic development significance require support from the City in navigating Los Angeles’ regulatory environment, or access to state or federal business programs administered by the City, the new EDD should be their guide to achieve the municipal objective of encouraging job growth and increased business activity that will grow the tax base. This unit within EDD would have industry-specific “service desks” dedicated to establishing a business-friendly environment in the City of Los Angeles, particularly for those industries identified as top priorities by the citywide economic development strategy, potentially including hospitality and tourism, entertainment, trade, life

sciences/biomedical, and aerospace and diversified manufacturing.

- **Small Business Services:** The new EDD should assume responsibility for the Los Angeles BusinessSource Program, bringing the new entity's centralized business and industry services to targeted communities throughout the City, linking with existing small business assistance programs, helping small businesses to secure financing, and work more efficiently with the City. The new EDD General Manager should continue to evaluate the program's effectiveness in fulfilling the City's small business service needs, particularly as they relate to a new citywide economic development strategy.
- **Workforce Development:** The EDD should have a strategic planning team that establishes priorities for workforce development, and business and industry service teams focused on creating more business-friendly environments for priority industries. It should also have a workforce development team that manages federal workforce development programs and establishes partnerships with industry groups and educational institutions to help develop skills for Los Angeles' residents that meet the needs of its targeted industries, both in the short term, but also in response to long-term economic trends. The new EDD would manage the WorkSource and YouthSource Centers to these ends, ensuring they align with the priorities of the citywide economic development strategy.
- **Business Improvement Districts:** As in other cities, BIDs have emerged as important components in the economic development landscape of Los Angeles, with 39 existing and 19 in formation. Although the City Clerk should continue to administer the election process for BID formations, the new EDD should assist the BIDs with preliminary formation activities (prior to the district establishment/investigative process), legislative establishment activities (the legal approval process), ongoing administrative activities once the district has been established, and in partnering with City departments where appropriate. This function, which is similar to how the New York City Department of Small Business Services interfaces with its city's BIDs, should ensure that BID activities are aligned with the citywide economic development strategy to the greatest

extent possible, and that BIDs have access to City resources when their efforts do advance the implementation of such a strategy.

**POTENTIAL ECONOMIC DEVELOPMENT DEPARTMENT ORGANIZATIONAL CHART**  
(Figure V-2)



## Tools

The new EDD should be responsible for overseeing and managing the traditional economic development toolbox, including state and federal grants, business loan programs, and Enterprise Zones, among others. In particular, the new EDD should be responsible for assuring that all federal and state resources related to economic development are acquired by the City. Some resources – particularly those for small business services and workforce development – would be directly managed by the department, while others would be used at the discretion of the CEDN according to its contract. The new EDD would then serve as the City's clearinghouse for all of these funds, ensuring that all uses comply with relevant City, state, or federal requirements, and serving as the governmental signatory on transactions negotiated by CEDN as agent for the City. Many of these transactions would also require City Council approval.

Nonetheless, the very existence of the CEDN will be a powerful tool for the EDD and its mission to fulfill the goals of the citywide economic development strategy. This service provider would allow for maximum flexibility in the development and delivery of EDD programs through a greater ability to incubate initiatives, conduct specialized economic analyses, and provide transaction services – all in addition to the real estate services that the CEDN would provide.

## Resources & Staffing

EDD should be created as a new City department focused solely on economic development activities. Its General Manager, appointed by the Mayor and confirmed by the City Council, should be a professional with extensive private business experience and an entrepreneurial spirit who understands private sector requirements for business development and public sector responsibilities for resource management and intergovernmental cooperation. This General Manager of EDD would be responsible for recruiting deputies for each operational division who are experienced private and public professionals in business and industry services, strategic planning, and workforce development.

The HR&A Team developed an order-of-magnitude Year 1 operating budget for the new EDD based on

these recommended functions and estimates of the number of staff and annual budget for comparable functions within existing City departments, as shown in Figure V-3. Existing staff and resources directly relating to the functions of the new EDD could be transferred from CDD and other existing offices in City government.

**Figure V-3: Recommended Order-of-Magnitude Year 1 Economic Development Department Operating Budget**

Function	Staff	Year 1 Operating Budget
Executive, Finance, Administration	18	\$2,650,000
Strategic Planning & Policy	2	\$200,000
Industry Service Desks	12	\$1,300,000
Small Business Services	10	\$1,100,000
Workforce Development	34	\$12,000,000
BID Administration	10	\$2,450,000
State & Federal Resource Management	51	\$7,800,000
<b>TOTAL</b>	<b>137</b>	<b>\$27,500,000</b>

In addition to these current operating resources, CDD provided the HR&A Team an alternative analysis of its budget that included significant grant-funded programmatic resources for Small Business Services (\$11 million) and Workforce Development (\$39 million, with approximately 94 employees) that should also be considered for transfer to the new EDD with these functions, assuming such grant-funded resources are available in FY 2013-14.<sup>15</sup>

Staff and resources which could be transferred from CDD and other existing City offices to the new EDD are described in more detail below:

- **Small Business Services:** The HR&A Team estimates that CDD currently employs 10 staff members for small business services with \$1.1 million in CDBG funds. These resources also leverage approximately \$10.9 million in CDBG funds for

<sup>15</sup> Under an alternative structure, fewer resources could be included in the EDD, with workforce development functions, primarily funded by the federal government, remaining with the Human Services and Family Development function.

small business-related projects and contracts, such as the nonprofit operators of BusinessSource Centers.

- **Workforce Development:** The HR&A Team estimates that approximately 129 staff members at CDD are directly responsible for workforce development in the City of Los Angeles – approximately 93 employees and \$11.4 million on-budget from the Workforce Investment Act (WIA), 35 dedicated to the distribution of an additional \$38.9 million in WIA funds, with a corresponding operating budget of \$4.7 million, and one employee and \$200,000 funded by CDBG resources.
- **Business Improvement Districts:** The HR&A Team estimates that the City Clerk currently employs 14 people and has an operating budget of nearly \$3.1 million to administer Business Improvement District contracts and special assessment districts within the City. The HR&A Team has estimated that EDD will require approximately 10 FTE for its BID development and support functions.

In addition to these functional resources, the new General Manager should also evaluate the staffing and resource requirements for the management of state and federal resources related to economic development, particularly in light of potential efficiencies developed through the establishment of the CEDN and its transaction services division. The HR&A Team estimates that CDD currently employs a total of 63 staff with an associated budget of approximately \$13.6 million in citywide grants coordination and grants management. (An additional 36 staff in CDD provide administrative and technology support functions for the whole department.)

Since the new EDD would be accepting responsibilities for all CDD functions other than its Human Services and Family Development Division, the HR&A Team estimates that approximately \$25 million in operating funding should be available as a transfer from CDD to the new EDD. This includes an assumption that 50% of CDD's current executive, administrative and technology budget and staff transfer to the new EDD and the balance remains with Human Services and Family Development.

The General Manager of the new EDD should evaluate all of these existing resources to determine which personnel are appropriate to transfer to the new EDD based on their current skill level and the skills required to be performed in the new department.

In particular, the General Manager should prioritize the establishment of a new culture within EDD that is results-oriented, entrepreneurial, and focused on the City's economic goals, rather than the simply transferring existing functions from CDD.

Given these substantial existing operating budget resources, the HR&A Team does not recommend additional General Fund appropriations for EDD. Indeed, a comparison to comparable functions in New York City government reveals a City with twice the population of Los Angeles with only 66 FTEs in workforce development managing 19 workforce centers around the city, and 12 FTEs overseeing all 67 of the City's BIDs, as well as its local development corporations, with six employees in the Department of Finance also contributing some of their time to related administrative tasks.<sup>16</sup>

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<sup>16</sup> Interview with Robert W. Walsh, Commissioner of the New York City Department of Small Business Services.

## CITYWIDE ECONOMIC DEVELOPMENT NONPROFIT

### Responsibilities

The creation of a new Citywide Economic Development Nonprofit for Los Angeles would present an opportunity to develop a new resource for policy makers, line departments, proprietary agencies, Council Offices, and communities in need of revitalization. Specifically, this newly-created, independent, not-for-profit should be a transaction-oriented contractual vendor to the City that is engaged to fulfill the following economic development responsibilities on behalf of the City:

- **Strategic Asset Management:** Although the HR&A Team has not seen a complete inventory of the real estate assets owned or controlled by the City, it is highly probable that, as in most cities, some of these assets are not needed to fulfill the City's service responsibilities and would be more usefully transformed into engines for economic growth. The types of properties that should be explored for managerial transfer to CEDN and potential disposition or redevelopment should include non-housing asset properties from CRA/LA, parking lots and garages well-poised for new development projects, surplus non-core mission property of the proprietary agencies, and projects like the LA Mall, or Ports O'Call Village.<sup>17</sup>

CEDN should be responsible for managing these strategic assets on behalf of the City, and balancing return on investment through short or long-term dispositions with strategic economic development priorities (e.g. the attraction or retention of businesses in targeted industries and job generation). Based upon experience in other cities, both of these goals are achievable. In particular, this responsibility is more appropriate for an entity focused solely on economic development than the Department of General Services, which is charged with the housekeeping tasks of government.

- **Real Estate & Infrastructure Development:** In the wake of the closing of CRA/LA and the increasing importance of major projects in the City, such as the

LA River, Grand Avenue, and Union Station, it is clear that a citywide entity with development expertise can play an essential role in advancing economic development real estate and infrastructure projects with citywide implications to ensure that the City maximizes its return on investment and the achievement of its economic development goals.

Successful examples of this real estate and infrastructure development function are clear from all the case studies, and it should be a core function of the CEDN. CEDN should assume primary responsibility for managing major public-private projects on both publicly- and privately-owned lands in order to: (1) ensure these developments meet the City's economic development and revenue goals; (2) oversee master planning and entitlements processes; and (3) create predictability for private sector partners as projects navigate the permitting process. CEDN should also negotiate the detailed terms of any asset disposition and/or City financial assistance transactions – including economic terms, development program, construction milestones, and risk management – to achieve the best outcome for the City at the least risk.

CEDN must develop the in-house expertise to manage these complex endeavors over time and will be required to rely heavily on expert consultants in its initial years. Therefore, the HR&A Team's recommended order-of-magnitude budget anticipates a gradual phase-in of dedicated project staff with an initially sizeable budget related to the predevelopment costs of project implementation. However, as the staff gains expertise over time, the budget required for outside experts should shrink.

The following examples may give a sense of the types of projects that this division should seek to advance: the LA River project (in collaboration with the LA River Revitalization Corporation), Bringing Back Broadway, public plazas in Chinatown, or coordination of infrastructure projects to advance the Union Station master plan with Metro.

- **Business and Industry Development:** Pursuant to the key industries for growth identified in the City's strategic economic development plan, CEDN should be principally responsible for their recruitment and initial development. CEDN's efforts should include

<sup>17</sup> The City is in the process of selecting a consultant to advise it regarding the overall Asset Management function. This report recommends an overall approach for the responsibility for managing strategic assets that should be considered by this forthcoming study.

assessing the City's current resources and responsibilities for business and industry attraction initiatives across all City and proprietary agencies, as well as among private sector city and regional economic development partners, including those at the regional level such as LAEDC, those at the area level such as VICA, and those at the neighborhood level such as the BIDs. CEDN should be the coordinator of recruitment, retention and growth efforts among all of these agencies and organizations, and work in partnership with them to maximize the City's efforts in this area and assure a reasonable degree of coherence.

Although CEDN would be responsible for helping to identify, attract, incubate, and develop priority industries for the City of Los Angeles, as these businesses and sectors become more established, the intent would be for them to coordinate with the business "service desks" at the new EDD.

- **Transactions Services & Financing:** In line with best practices, and in order to demonstrate the extensive value that a consolidated transaction services resource can be to numerous City entities, CEDN should contain a unit primarily responsible for incubating, negotiating, and executing economic development transactions on the City's behalf. With a thorough understanding of both private sector needs and public sector requirements, this unit should be given the responsibility of structuring and negotiating economic development transactions with private sector parties and counter parties on behalf of the City of Los Angeles.

This unit would provide support to the strategic asset management team regarding development projects and lease negotiations, the real estate and infrastructure development team regarding the structuring and negotiations of major project transactions, and the business and industry development team with its transactions.

In addition, the transaction services unit should also become an invaluable resource to City and Proprietary Agencies, the CAO and CLA, and potentially to the City Council. The unit would consist of transaction-oriented professional staff with both public and private sector experience who would ensure that deals are structured to maximize

City objectives, while minimizing economic and political risk. The division should work closely and efficiently with private counterparts, helping to forge a more business-friendly environment.

Finally, this division of CEDN would assume management of the Los Angeles Development Fund and Industrial Development Authority, which would become new subsidiaries of CEDN. Staff and resources from LADF and IDA would be transferred into the CEDN, which would provide additional staff or administrative support to the two subsidiaries as needed. LADF and IDA would maintain their current board, governance, and reporting policies.

- **Strategic Planning & Policy Development:** A consistent theme among interviewees was not only that the City lacks a citywide economic development strategy, but also that it lacks the resources necessary to conduct the research and economic analysis even to establish a well-informed strategy if political executives so choose. As the HR&A Team's analysis of best practices across the country indicates, those cities with visionary political, business and community leadership that establish long-term citywide economic development strategies – i.e., specific priorities and actions to advance citywide competitive advantages and growth 5-25 years in the future – are most likely to have effective economic development outcomes.

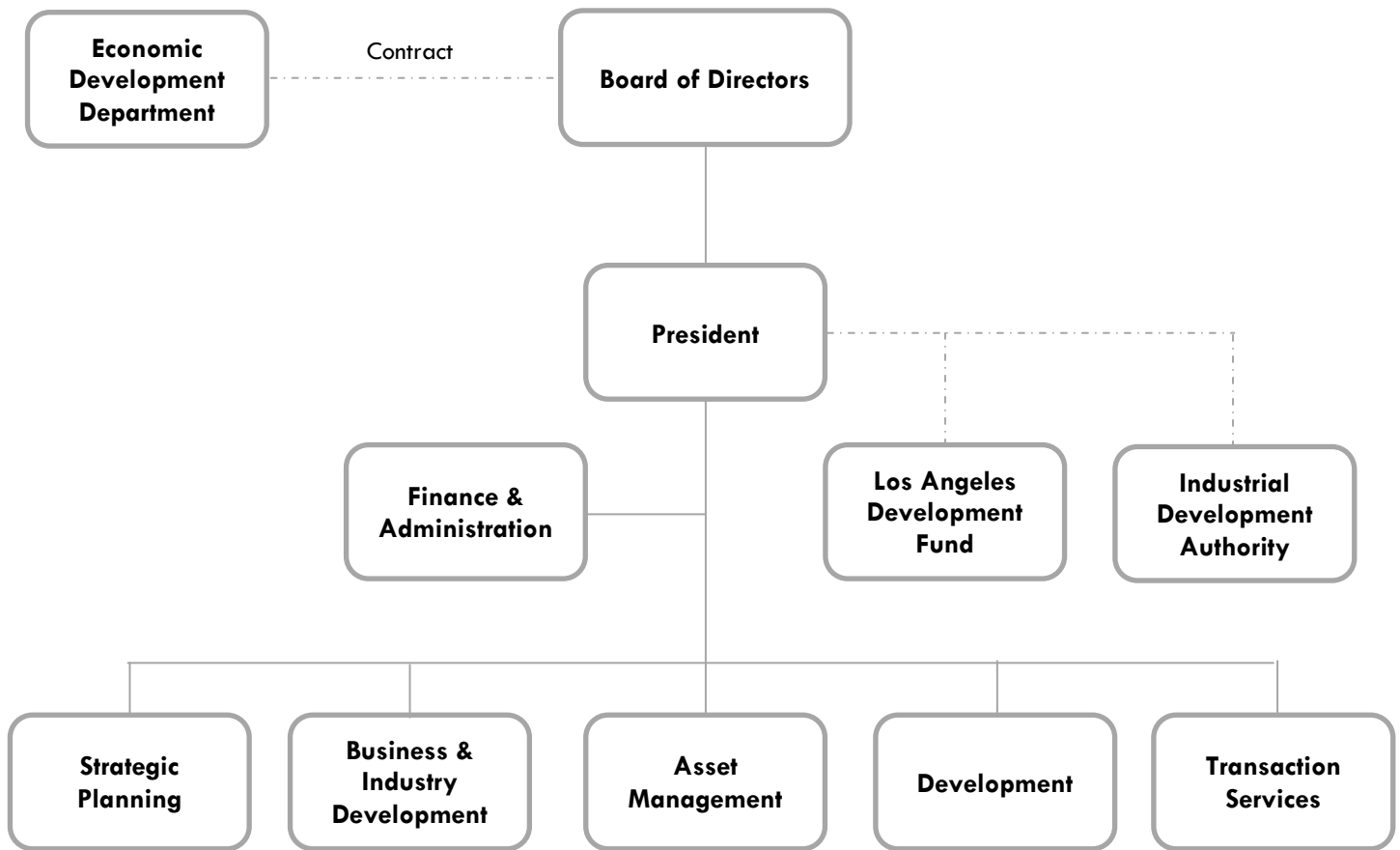
Strategic planning and policy development requires an appropriate balance of independence and experience – it must be driven by a realistic assessment of the City's fundamental economic trends, economic assets, and competitive strengths and weaknesses.

A strategic plan for citywide economic development is necessarily a responsibility of the Mayor in consultation with the City Council, who would direct the Deputy Mayor for Economic Development and the General Manager of EDD to produce the plan. However, CEDN should serve as a strategic planning resource to help shape economic development policy and initiatives, coordinating and collaborating with valuable research and analysis being undertaken by local universities as well as LAEDC, and augmenting it with its own research. This strategic planning unit within CEDN should



provide the EDD and Deputy Mayor with critical economic development research and analytics to inform the development of the citywide economic development strategy and specific business and industry development initiatives that may result from the CEDN's continued tracking of key economic development indicators.

**RECOMMENDED ORGANIZATIONAL CHART FOR THE CITYWIDE ECONOMIC DEVELOPMENT NONPROFIT**  
(Figure V-4)



## Tools

The Citywide Economic Development Nonprofit will require a variety of economic development tools and financial resources, with a clear organizational objective of becoming a self-sufficient, self-sustaining economic development agent that produces net revenues for the City of Los Angeles over the long term.

**Real Estate:** CEDN should be charged with leveraging those City-controlled real estate assets which have economic development potential – and which are not essential for the City’s municipal activities – as a tool for advancing the City’s economic development goals. Acting as agent for the City, CEDN should receive a fee for managing and developing these assets in order to realize their full economic potential.

**Development Incentives:** Building on its management of the City’s strategic real estate portfolio, and advancing some of the tools available to the former CRA/LA, CEDN should be given certain responsibilities to deploy the City’s development incentives, including:

- **New Markets Tax Credits:** As noted earlier, CEDN should adopt the Los Angeles Development Fund as a subsidiary, allowing CEDN to direct the flow of New Markets Tax Credits to priority projects within the Citywide Economic Development Strategy and leveraging fees as a valuable operating resource.
- **Project-Specific Tax Revenues:** These are the pool of new, incremental City tax revenues (e.g., property tax, sales tax, transient occupancy tax, utility user’s tax, business tax, parking tax) resulting from new development. CEDN should serve as the underwriting agent for assessing the merits of the use of such funds, which must ultimately be approved by the Mayor and City Council.
- **DWP Rate Reductions:** CEDN should be given the ability to underwrite and direct reduced DWP rates to target companies or projects as one of its tools in the City’s relatively limited economic development toolbox, with ultimate approval by the DWP Commission and City Council.
- **Industrial Development Authority:** CEDN should adopt the Industrial Development Authority of the City of Los Angeles as a subsidiary, allowing CEDN

to direct the flow of tax-exempt financing and bonds from the IDA throughout the City.

- **Federal Resources:** CEDN should be given the flexibility to recommend to the EDD opportunities to leverage the use of CDBG to achieve citywide business and job growth, as well as small business loan funds, and other federal resources that may be used towards achieving citywide objectives for economic development, helping to evaluate priority projects through a strategic citywide lens.

In general, CEDN will require a certain level of transactional flexibility in its deal-making related to the use of these tools and resources. Indeed, as part of its contract negotiations with the City, a threshold should be set for deal sizes under which CEDN would have complete discretion, with pro forma EDD sign-off. Larger deals and major transactions such as the disposition of major City properties would, under the contract, need to be approved by the Mayor and City Council.

## Staffing and Resources

The new Citywide Economic Development Nonprofit for the City of Los Angeles should be initiated by private sector business, industry, and community leaders. In advancing the recommendations of this report, this new CEDN should be granted sufficient resources by the City in its first three years of operations to:

- Demonstrate persuasively to the private sector that the City intends to prioritize this new model of economic development for the City;
- Incubate a startup, transaction-oriented organization, with both sufficient operating resources and a certain amount of project resources to establish itself as an invaluable resource to City government;
- Establish managerial control of revenue-generating assets that will allow CEDN to become self-sustaining following its initial years of incubation, producing sufficient revenues to create additional value for the City's budget;
- Attract and retain highly skilled, entrepreneurial, and professional staff with expertise in transaction negotiations, analysis, and related activities.

As outlined in Figure V-5, the HR&A Team recommends a conceptual, order-of-magnitude budget of \$4.8 million for the first year of CEDN's existence. This budget assumes the CEDN takes several months to staff-up to this level by the end of its first year of operations. It includes both a core operating budget for personnel and overhead, as well as limited project-related funds, assuming the CEDN undertakes the following initiatives and projects in its first year:

- Conduct significant research and analysis to inform the development of a citywide economic development strategy;
- Develop business attraction and industry development projects, along with a marketing strategy and event attendance to promote the City;
- Advance two to three priority real estate and infrastructure development projects on City land

with planning studies or development solicitations; and

- Develop criteria and an analytic framework for transaction evaluations.

Not included in this budget are project-related funds for the strategic asset management unit, which should be determined based on responses to the City's current Request for Proposals for strategic asset management services, funds for the Transactions Services & Financing Division's evaluation of individual projects proposed by private developers and businesses, which should fund those activities directly, or the use of project-specific revenues negotiated through the CEDN. Also not included are resources related to any affiliates or subsidiaries that the CEDN may have, such as the Los Angeles Development Fund and Industrial Development Authority.

The entirety of the HR&A Team's recommended \$4.8 million FY 2013-2014 budget for CEDN should be made available by the City. Sources of funds may potentially include:

- \$2 million that the City has already identified as a baseline contribution to the nonprofit;
- \$193,000 identified by GSD for the establishment of a Strategic Asset Management team (an amount which would need to be supplemented to attract the talent necessary to operate this division in CEDN);
- Proceeds from the City's share of additional property tax payments due to the elimination of CRA/LA, which are estimated to be approximately \$20 million annually beginning in FY 2013-2014;
- A grant from the Department of Water and Power Economic Development Group, which already provides for community redevelopment initiatives; and
- Fees from the management of strategic revenue-producing City-owned economic development assets, and from relevant transactions, including new leases and property dispositions (the proceeds of which would be divided between the CEDN and the City's general fund based on specific contract negotiations).

The Mayor and the City Council should direct the CAO and CLA to determine which of these existing City resources – which include both General Fund and Special Fund revenues – should be transferred to the CEDN.

As a point of reference, the HR&A Team estimates that in its second year of operations, the New York City Economic Development Corporation (NYCEDC) received approximately \$4.5 million from the New York City Council, representing nearly one-third of its \$15 million core operating budget of personnel services and overhead, with the balance funded by revenue-generating assets under NYCEDC's control.<sup>18</sup>

A review of NYCEDC's total operating budget reveals that it has grown substantially since 1994 to a current core operating budget of \$66 million and 417 staff in 2012, but this growth was fueled by revenue generated by NYCEDC, which now returns approximately \$100 million each year to the City general fund.

The HR&A Team further recommends that CEDN seek private contributions as seed capital during its startup period, and that any private contributions be used by CEDN to supplement the City appropriation and to develop a more robust organization.

The HR&A Team is confident that even with this limited City contribution in its initial year, the CEDN can be established and incubated in a fashion that will allow it to become financially self-sustaining within a matter of years as a direct result of its strategic management and disposition of the City's real estate portfolio as well as fees related to its Transaction Services & Financing division. Moreover, the HR&A Team expects that the CEDN's budget will grow over its initial years as it demonstrates its value for supporting the City's economic development efforts and creates earned income through its transaction-oriented activities.

**Figure V-5: Recommended Order-of-Magnitude Year 1 Citywide Economic Development Nonprofit Operating Budget**

Team	Staff	Year 1 Operating Budget
Executive, Finance, Admin	4	\$500,000
Strategic Planning & Policy	2	\$650,000
Business & Industry Development	3	\$1,350,000
Real Estate & Infrastructure Dev.	3	\$850,000
Asset Management	4	\$400,000
Transaction Services & Financing	4	\$650,000
<b>TOTAL</b>	<b>20</b>	<b>\$4,400,000</b>
<b>Startup Costs</b>		<b>\$400,000</b>
<b>Total Expenses</b>		<b>\$4,800,000</b>

\*Order-of-magnitude budget only, in need of refinement pending specific business plan for CEDN.

\*\*Does not include budgets for CEDN subsidiaries, LADF and IDA, nor programmatic budgets related to Asset Management, which may be determined through the strategic asset management RFP for which the City is currently evaluating responses.

<sup>18</sup> New York City Economic Development Corporation 1994 Operating Budget as provided to HR&A by NYCEDC's Chief Financial Officer. In addition to this operating budget, the City provided \$170 million in capital funding to NYCEDC in 1994.

## Governance of the Nonprofit

The CEDN should be an independent, private not-for-profit with a Board of Directors comprised primarily of private sector leaders representing business, industry, and underserved communities. In particular, based on review of comparable organizations, as well as firsthand experience in establishing precedent organizations, the HR&A Team recommends that the Board of Directors be comprised of certain predetermined professional experience categories, potentially including large business management, real estate, finance, law, revitalization of underserved neighborhoods, community leaders, higher education, labor, local chambers of commerce and/or small businesses. Board members must also be experienced practitioners who are able to lend meaningful expertise in launching business ventures and/or executing economic development initiatives.

The HR&A Team recommends that these Board members serve staggered 3-year terms until the Board Chair appoints their successor. All Board members would serve as unpaid volunteers and would not be permitted to delegate their positions or votes.

The Board should be responsible for selecting the CEDN President and for overseeing its operations as well as its contract negotiations with the City. The President should have the authority to hire and fire staff consistent with a set of personnel policies to be developed during the first year of operation.

As the recommendations of this report are advanced, key steps for implementation in early 2013 include: private sector formation and incorporation of the CEDN, selection of Board members and appointment of the Board Chair, negotiation of CEDN's service contract with the City, and recruitment of the CEDN President and staff. These implementation steps are detailed in Chapter VI.

## Key Contract Terms

As an independent nonprofit entity charged with implementing economic development activities for the City, the CEDN will need to enter into a service contract with the City. This service contract will be negotiated and managed by EDD, subject to approval by the Mayor and City Council, and should include the following provisions, which would be developed in greater detail following City approval of the recommendations in this report:

- **Scope and Purpose:** The contract should identify the purpose of the CEDN as an entity providing citywide economic development services to expand the tax base, attract private investment, and increase employment in partnership with EDD, allied City departments and proprietary agencies. The scope should further specify the economic development functions and programs that CEDN will implement on behalf of the City, such as business and industry development, management and disposition of specified City real estate assets, transaction services for public-private real estate development, support of the City's strategic plan for economic development, and active participation in a new Economic Development "cabinet."
- **Term:** In order to provide a long-term focus, and as a prerequisite for attracting the talent necessary to lead this new private sector entity, the HR&A Team recommends that the service contract have an initial three year term, renewable at the option of EDD and the CEDN. The service contract should also include appropriate termination provisions, including transfer of any public assets or resources back to the City upon termination.
- **Good Governance:** The contract should include requirements that the CEDN adopt provisions for good governance, consistent with best practices among non-profit economic development organizations, including establishment of conflict of interest policies, internal financial controls, and preparation of an annual audit by a Certified Public Accountant.
- **Self-Governance:** These provisions would confirm that the CEDN is an entity independent from the City with rights and responsibility of self-governance,

including: the right to hire and fire its own staff and to establish its own systems for human resources and procurement, consistent with best practices among non-profit economic development organizations. CEDN would also be responsible for payment of its own obligations without recourse to the City.

- **City Operating Grant:** The contract should include provisions relating to funding procedures and the use of the City grant provided to cover start-up costs and initial operating expenses for the CEDN, as agreed by the Mayor and City Council, and administered by EDD, and an acknowledgment that this will be an annual grant by the City, subject to appropriation.
- **City Programmatic Grants:** These provisions would relate to restricted funds that may be provided by or passed through by the City for project- or program-specific purposes.
- **Transferred Entities:** CEDN would be responsible for ensuring appropriate staff and management resources to carry out the mission of other City-affiliated entities that are transferred or made subsidiaries of the CEDN, including the Los Angeles Development Fund and Industrial Development Authority. These entities would maintain their independent Boards as deemed appropriate or to satisfy legal requirements. To the extent permitted by law, net income generated by these transferred entities may be transferred to CEDN to fund its programmatic requirements covered by the service contract.
- **Earned Income:** These provisions would grant CEDN the right to earn income from transaction fees and property lease or sale disposition proceeds related to City resources and assets under CEDN's care, to enter into fee or cost-recovery agreements with private developers applying through CEDN for public funding, to earn interest from bank accounts, investments, and any loan programs established to further CEDN's mission, as well as to leverage other potential public and private resources towards the fulfillment of its mission. Such earned income should be retained by CEDN for current and future programmatic purposes covered by the service contract.

- **Reporting Requirements and Performance**

**Management:** CEDN must develop its own financial and performance management systems. CEDN would be required to make certain periodic reports to the EDD, Mayor, and City Council, including:

1. Quarterly financial and performance reports (including forecast and actual jobs created or retained, growth in City tax revenues related to its operations, and private investment catalyzed) to be provided to the General Manager of EDD and Mayor;
2. An annual report including audited financial statements to be provided to the General Manager of EDD, Mayor and City Council; and
3. An annual public presentation by the CEDN Board Chair or President to the City Council or the appropriate City Council Committee(s) regarding CEDN's progress.



## DEPUTY MAYOR FOR ECONOMIC DEVELOPMENT

A citywide strategy for economic development will require services and expertise beyond those of EDD and CEDN – organizations solely devoted to economic development outcomes. Several economic development-related departments, proprietary agencies, and delivery partners provide services with outcomes that affect economic development in the City of Los Angeles, but only as part of a broader suite of services with objectives that may include but are not limited to economic development.

The City's Deputy Mayor for Economic Development, its chief economic development coordinator, the appointed citywide economic development leader, must therefore not only direct implementation of the City's agenda within EDD and, through its contract, CEDN, s/he must also have a certain degree of oversight, influence, control, or communication with these other important economic development entities, including:

**Economic Development-Related Departments:** The following City departments each have significant impacts on economic development in the City of Los Angeles and the new model should ensure that they both adhere to the citywide economic development strategy under the guidance of the Deputy Mayor and benefit from services provided by the EDD or CEDN. The HR&A Team recommends that the Mayor issue an Executive Directive for the following departments to report the Deputy Mayor for Economic Development as part of a new "Economic Development Cabinet." These departments would report on all their economic development-related activities, but would maintain their functional responsibilities:

- **Planning:** The land use regulatory regime of the City of Los Angeles is a major factor in its economic development potential. Approximately one-third of the Department of City Planning's staff is devoted to either long-term planning or case review of current projects. Strategic guidance from the Deputy Mayor for Economic Development can help ensure that both long-term plans and approvals for pending development projects are coordinated with the priorities of the citywide economic development strategy.
- **Building & Safety:** The Department of Building & Safety can also benefit from guidance provided by the Deputy Mayor for Economic Development in fulfilling its role in the land use entitlement process – an important factor in promoting economic development through real estate development. The Deputy Mayor can ensure the department's case management division prioritizes those projects identified as critically important to the citywide economic development strategy and receives intergovernmental support when necessary.
- **Transportation:** The City's transportation network and policy have become increasingly critical drivers of economic development in Los Angeles, from staff working on transit planning and land use, to parking policy, to traffic policy and infrastructure improvements. Through a coordinating relationship provided by the Deputy Mayor for Economic Development, the Department of Transportation can ensure it receives appropriate guidance for the prioritization of projects within the citywide strategy and provides services that support the City's strategic agenda.
- **Recreation & Parks:** Public parks and recreation programs are increasingly recognized as a critical driver of economic development for cities in the 21<sup>st</sup> Century, helping to shape not only residential neighborhoods, but also vibrant business districts. Decisions about new park development and distribution of resources among existing landscapes can have significant impact on economic development objectives. Coordination with the Deputy Mayor for Economic Development should enable the Department of Recreation and Parks to dovetail its initiatives and projects with the City's economic development priorities established in the citywide economic development strategy.
- **Cultural Affairs:** The arts are a significant driver of economic development and the brand of the City of Los Angeles. Efforts of the Department of Cultural Affairs, from strategic investments and public financing to asset management should benefit from guidance from the City's economic development executive in order to ensure the department's efforts align with strategic priorities of a citywide plan and advance specific initiatives that might benefit from investments in the arts, whether as a part of a City

development project or an industry-targeting initiative.

- **Convention Center:** The operations of the Los Angeles Convention Center are a significant driver of visitor spending and Transient Occupancy Taxes in the City. A coordinating relationship with the Deputy Mayor for Economic Development should ensure that these operations align with the City's economic development strategies to the greatest extent possible. For example, if the City establishes a priority to develop a certain industry such as CleanTech, the Deputy Mayor should be able to help ensure the Convention Center attracts conferences and events that will advance that goal.

**Proprietary Agencies:** The City's three proprietary agencies all play essential roles in the economic development of Los Angeles. As such, their efforts should form an essential part of the Citywide Economic Development Strategy, and their investments and policies should be coordinated likewise. Regular coordination between the Deputy Mayor for Economic Development and the proprietary agencies should help ensure not only that LAWA, Harbor, and DWP's policies and investments are in line with citywide strategy, but also that they get the support they need to advance their missions.

For example, development initiatives of the proprietary agencies related to land use could benefit from the guidance of an economic development executive prepared to shepherd such strategic initiatives through the City's organization. The Deputy Mayor would also be in a position to encourage the proprietary agencies to utilize support from CEDN's dedicated transaction services professionals when disposing or reusing non-core mission real estate assets, allowing the proprietary agencies to focus more on their core missions.

**Economic Development Partners:** The City also relies on valuable partners outside of City government to advance economic development throughout Los Angeles. From the Metropolitan Transportation Authority (Metro), to LAEDC, to the Tourism and Convention Board, to countless other local and regional economic development organizations like the Valley Industry and Commerce Association or the Korean Chamber of Commerce or the Latin Business Association, the City should make better efforts to leverage these

organizations as resources for achieving its citywide economic development goals and to support their efforts that contribute to the advancement of the citywide economic development strategy and the improvement of underserved neighborhoods. The HR&A Team therefore recommends providing these organizations a senior point of contact at the top of the City's economic development apparatus – the office of the Deputy Mayor for Economic Development. Although Council Offices would continue to play a significant role with each of these organizations, an economic development executive can help ensure that they contribute to citywide goals in addition to neighborhood- or area-specific ones.

### Staffing and Resources

The office of the Deputy Mayor for Economic Development need not be any larger than the Mayor's current Office of Economic and Business Policy. Although the specific staffing requirements must be determined by the Mayor and his or her selected Deputy Mayor, the HR&A Team does not believe that any additional appropriation will be necessary for this office in FY 2013-2014.

## **AN OPPORTUNITY FOR MORE POTENT CITYWIDE ECONOMIC DEVELOPMENT PRIORITIZATION**

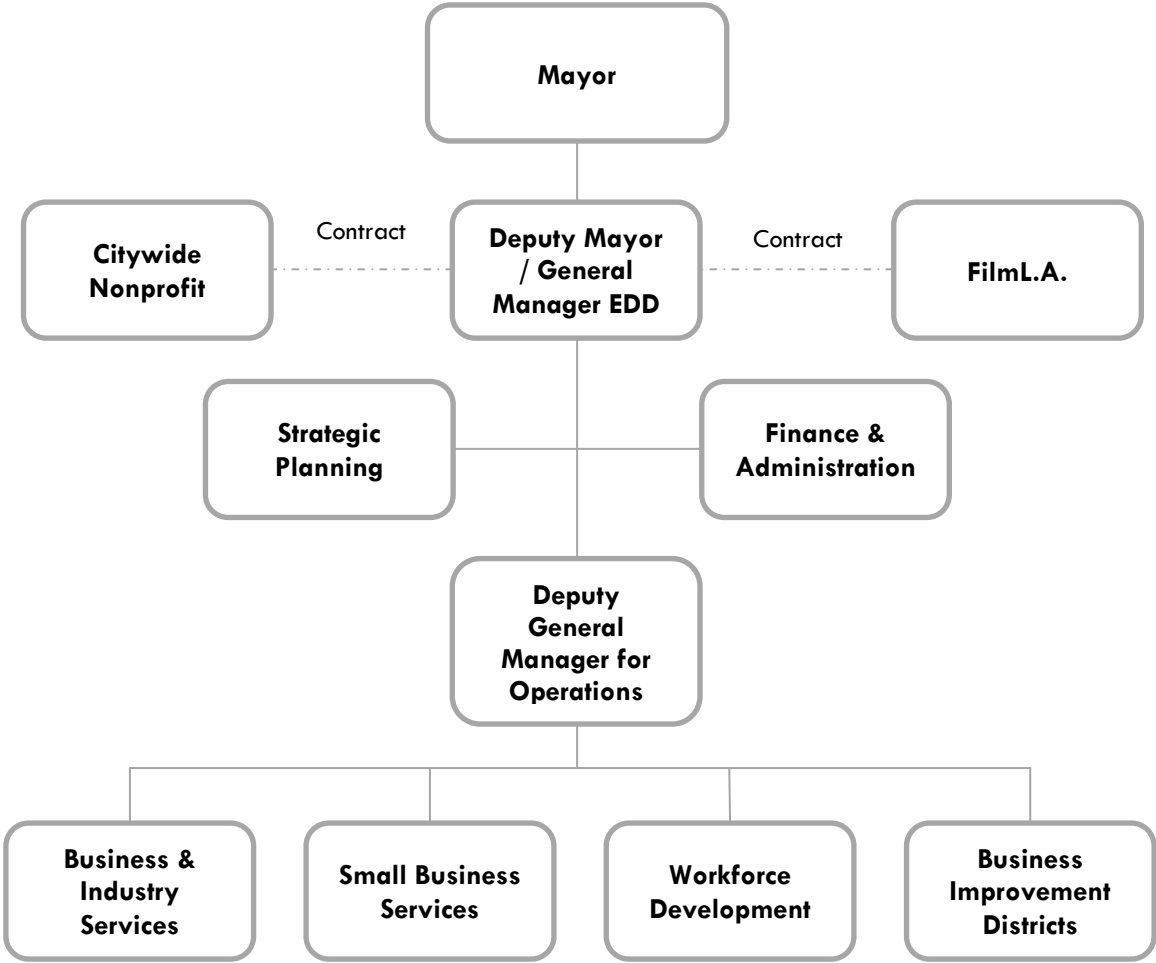
Under an alternative model in which the Deputy Mayor for Economic Development is also confirmed by the City Council as the General Manager of the new EDD – an alternative that the HR&A Team believes would provide greater benefit and prioritization to citywide economic development in the City of Los Angeles – an appropriately-qualified candidate would serve as both line manager of the EDD and as a key member of the Mayor's staff.

In this dual role, the General Manager/Deputy Mayor would be the City's chief economic development executive and as such would provide leadership and enforce Mayoral policy oversight for the EDD, non-profit and related departments that support economic development (see Figure V-6).

In order to be successful in this dual role, the General Manager would need to be a nationally-recognized leader in economic development, have subject-matter expertise in one or more economic development functions, and be politically savvy to manage both the line and staff responsibilities.

This approach would require the Mayor to select a General Manager/Deputy Mayor that could be approved by, and maintain the confidence of, the City Council, and this would require both the Mayor and the City Council to be invested in the success of citywide economic development efforts. It would be an approach similar to the leadership structure in Philadelphia, where the Director of Commerce has also served as Deputy Mayor since 2008, and in Boston, which does not have a Deputy Mayor but where the head of the BRA also serves in the Mayor's Cabinet as Chief Economic Development Executive. These cities' governance structures differ from Los Angeles in that both Philadelphia and Boston have Councils with a mix of district and at-large representatives. With no at-large representatives in the Los Angeles City Council, the HR&A Team believes this approach would be significantly more beneficial to the City of Los Angeles, particularly given the resounding need for an improved citywide focus.

**RECOMMENDED ORGANIZATIONAL CHART FOR THE DEPUTY MAYOR OF ECONOMIC DEVELOPMENT  
AND ECONOMIC DEVELOPMENT DEPARTMENT**  
(Figure V-6)



## NEW INITIATIVE EVALUATION & APPROVAL PROCESS

Under the new organizational structure proposed in this report, those seeking City guidance and assistance for projects with citywide economic development implications would have more consistent and transparent routes to meet their needs. Regardless of whether an initial approach for assistance is made to the Mayor's office, a City Council office, an individual City department, or one of the City's economic development partners, all referrals would be made directly to either the new Economic Development Department or the new Citywide Economic Development Nonprofit, depending on the type of project or form of assistance in question.

The following are examples of the new routes such inquiries will take, which are also shown in Figure V-7:

### **Business looking to relocate or expand in Los**

**Angeles:** All such inquiries should initially be referred to the CEDN. The business and industry development staff would screen each inquiry to determine, first, whether the business qualifies as a "small business" under applicable local, state and/or federal programs, and the specific form(s) of City assistance that may be appropriate. If the business qualifies as a "small business" and seeks only to take advantage of preferential targeting, incentives or other financial aid reserved specifically for small businesses, the inquiry would be referred to the EDD's small business staff, which would work to assemble the available resources. This process may include further referrals to small business assistance centers, such as those operated by the Valley Industry Council, depending on where in the City the inquiring small business seeks to operate. To the extent that the assistance falls within the funding parameters of the EDD or one of the City's small business assistance partners, final assistance packaging would conclude there. If the assistance sought exceeds those funding thresholds, approval by the City Council and Mayor may be required.

If a particular business inquiry involves a larger commercial enterprise, and especially if the inquiry concerns an identified key industry sector or other strategic priority (e.g., clean technology manufacturer), the inquiry would be further evaluated by staff at the CEDN for assistance or incentive packaging. Again,

depending on whether the form or amount of such assistance falls within the thresholds that can be approved by the CEDN, the assistance package would be underwritten and provided by the CEDN's transaction services staff directly, or the underwriting would be referred to and processed by the EDD for approval by the City Council and Mayor.

Similarly, if the inquiry either directly seeks the use of surplus City-owned land, or, based on evaluation, it is determined that the inquiry is suitable for development or implementation on surplus City-owned land, the CEDN's transaction services and/or real estate staff would assist in pursuing applicable access to the land, related land use approvals and any other form of assistance that is appropriate and consistent with furthering citywide economic development objectives. Depending on the specifics of the project, this pursuit may require approval by the City Council and Mayor (e.g., if it involves a ground lease or sale of surplus City-owned land).

### **Public-private partnerships involving a major**

**development project:** Projects of this type that would have previously been reviewed by CRA/LA, if located in a designated redevelopment project area, or by the CLA more recently, would now be reviewed and evaluated first by the CEDN. If the matter involves only a major financial assistance transaction, the CEDN's transaction staff would prepare the required underwriting review and forward the matter to the CLA for processing final approvals through the City Council and Mayor. If the project also involves significant land use approvals, the CEDN's real estate staff would make an initial assessment, in cooperation with the City Planning Department, and provide guidance and support as the project moves through the City's normal land use approval process, which could involve the Planning Commission, the City Council's Planning and Land Use Management Committee and full City Council. CEDN would seek to ensure that all City approvals are provided in the timeliest manner possible.

**Catalytic public investments:** Contrary to how such matters would be handled in the past (e.g., through CRA/LA, CLA or Mayor's office), the CEDN would take lead responsibility for evaluating the merits of proposed major investments of public resources (e.g., to fund a large and strategic land acquisition), or providing other support for a major initiative with clear

and demonstrable implications for the citywide economy (e.g., improvement to a major infrastructure system). The CEDN would take lead responsibility for coordinating with the EDD and the Deputy Mayor for Economic Development to marshal the human and financial resources required to shape the investment, rigorously evaluate the return on the City's investment, and guide the initiative through the City approval process, which in these instances would likely involve approvals by the City Council and Mayor.

**Re-use or disposal of surplus City-owned properties:**

The specific route for dealing with these types of projects would depend on whether the property in question is a Council-controlled site or one that is owned by one of the proprietary agencies. If a Council-controlled site, CEDN would immediately assume lead responsibility for reviewing the proposed disposition, performing the necessary underwriting review and assessing the return on investment to the City and its economic development objectives. Formal disposition proceedings (e.g., ground lease or sale) would require approval by the City Council and Mayor. If, on the other hand, the surplus property is owned by a proprietary department, that department would first need to determine if the site is a non-core mission asset. If so, the matter would be referred to the CEDN, acting as the real estate disposition arm of the proprietary department. The CEDN's real estate and transactions services staff would perform the required underwriting and due diligence review and return the proposed disposition matter to the proprietary department for approval by its governing board. In some cases, the action of the proprietary agency's board may require further approval by the City Council and Mayor. CEDN would be tasked with shepherding the matter through the entire approval process.

**New Business Improvement District (BID):** Under the new organizational system, all inquiries about forming a new BID would be referred to the EDD, whose BID-related staff would have responsibility for providing all of the BID evaluation, organizational design, funding design and other pre-election responsibilities formerly provided by the City Clerk and consultants working under contract to the City Clerk. If a new BID proceeds to the point of readiness for an official vote to assess property to pay for service costs, the mechanics of property owner voting would continue to be processed through the City Clerk. Once it is officially formed, the

new BID's service contracts, annual budget review approval, and other oversight tasks would be performed by the EDD.

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The HR&A Team believes that these new processes for shepherding economic development projects through the City's organization would create significant efficiencies for all relevant City departments and proprietary agencies, and would create clear and predictable paths and leadership that helps foster a more business-friendly environment for public-private engagements in the City of Los Angeles.

Ultimately, the tripartite recommendation for a new EDD, CEDN, and Deputy Mayor of Economic Development to serve as the City's dedicated economic development organizations would have the effect of dramatically simplifying and consolidating the City's disparate economic development activities, create greater efficiencies and predictabilities to foster growth, establish a means for generating net new revenues to the General Fund over the long-term, and ensure that the City consistently acts towards a unified, citywide economic development strategy that responds not only to the current economic environment, but also long-term trends.

**Figure V-7: Conceptual Economic Development Initiative Evaluation and Approval Process**

Assistance Request	Initial Inquiry to Mayor, Council Offices, Other Departments	1 <sup>st</sup> Stop	Filter	2 <sup>nd</sup> Stop	Filter	Final Approval
Business looking to expand/relocate		CEDN	Small business	EDD	Assistance / incentive package	EDD or Council/Mayor
			Key industry/Strategic Priority	CEDN	Assistance / incentive package	EDD or Council/Mayor
			Use of City Land	CEDN	Citywide plan alignment	Council/Mayor
P3/ Major Development Project		CEDN	Citywide plan alignment → incentive needs → potential package	CLA/EDD	Transaction structuring	Council/Mayor
			Citywide plan alignment → city land/use needs → potential package	NP / Planning / Planning Commission / Council	Disposition/land use action	CEDN/EDD
Catalytic public investment		CEDN	Affected Departments + resource needs	Depts. + CEDN	ROI assessment	Council/Mayor
City-owned / controlled Asset disposition		CEDN	Citywide plan alignment → ROI assessment	Mayor / Council	Disposition/land use action	CEDN/EDD
		Prop Agencies	Disposition/development goals	CEDN	Citywide plan alignment → ROI assessment	Prop Agency Board (Council/Mayor for some)
BID seeking financial assistance		EDD	Contract evaluation	Council Office or Mayor	Deal structuring	EDD
BID seeking to form		EDD	Proposal evaluation	City Clerk	Election	EDD



## **VI. IMPLEMENTATION PLAN**



## OVERVIEW

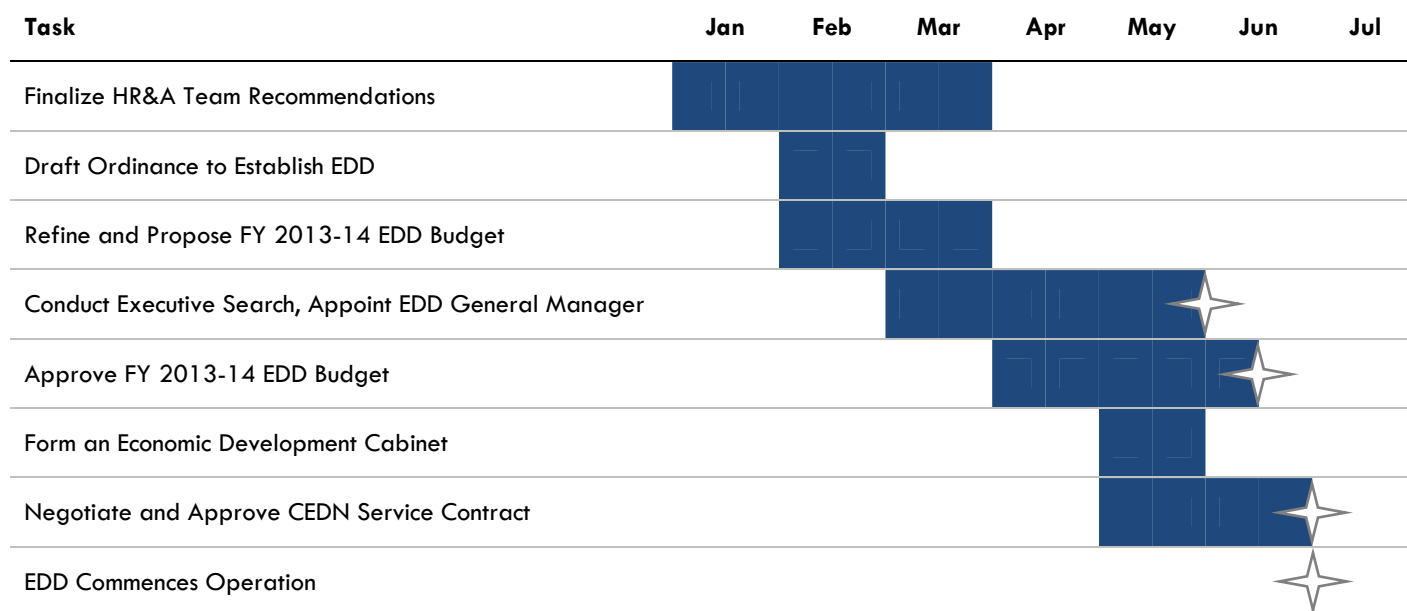
This chapter outlines a series of near-term actions to implement the recommendations presented in Chapter V, most of which concern the formation and start-up of the proposed new Economic Development Department (EDD) and new Citywide Economic Development Nonprofit (CEDN). Implementation of this new model of economic development for the City of Los Angeles will require actions of the Mayor, City Council, and leaders of business, industry, and the community, including the following:

- The Mayor and City Council must approve an ordinance to create the new EDD and approve a service contract for the new CEDN; and
- The private sector must evaluate the recommendations of this report and organize leaders of business, industry, and the community to create the new CEDN and negotiate the terms of its contract with the EDD, Mayor, and City Council.

The implementation action steps presented below are organized into two primary time frames: (1) the first six months of 2013, during which final decisions should be made about adopting the HR&A Team's recommendations, and specific actions should be taken by the City to implement them and budget for the first year of operation of both new entities; and (2) the tasks that should be undertaken by each of the new organizations during their first year of operation.

Once the new organizations have completed their first year of operations, it will be up to the leadership of each entity to chart its respective course of action for future years, develop requisite operating budgets and revenue sources, and establish performance benchmarks for measuring success. The action steps outlined below and summarized in Figure VI-1 assume that the Mayor and City Council concur, in general, with the recommendations set forth in this report.

**Figure VI-1: Schedule of City Action Items for Implementation of the New Model**



 Milestones

## ESTABLISHMENT OF THE NEW MODEL'S ORGANIZATIONS

### January 1-June 30, 2013

The HR&A Team recommends the following sequence of events for the City to establish the new EDD and contract with the new CEDN by July 1, 2013, the beginning of the City's 2013-14 Fiscal Year.

- **January-March: Vet, modify as necessary, and approve the HR&A Team recommendations:** During January and February, it is recommended that the CAO, CLA, and HR&A Team be tasked with presenting the draft report and its recommendations to a series of stakeholders for review and comment. Subject to concurrence of the Ad Hoc Committee on Economic Development Structure, the CAO, CLA and HR&A Team will present the draft report to several stakeholder groups during January, and then present a summary of that outreach to the Ad Hoc Committee in early February. Based on the Ad Hoc Committee's comments, the report would then be finalized for presentation to other City Council committees, as directed, and the full City Council during early March.
- **February: Draft an ordinance to establish the EDD:** In anticipation of City Council final action in March, the CAO, CLA, and City Attorney should collaborate on drafting an ordinance establishing the new EDD so that this new department is created and commences operations on July 1, 2013.
- **February-March: Finalize the recommended budget appropriation for the EDD for incorporation into the Mayor's recommended budget for FY 2013-14:** The CAO should assist the Mayor in refining the budget recommendation for the start-up year for the new EDD, including a reserve for the City's contribution to the first year of the CEDN.
- **March: Commence an executive search process to name the EDD General Manager:** Following City Council action concurring in the recommendation to establish a new EDD, the Personnel Department should initiate a national search for its first General Manager. This task may require retaining an executive search consultant. The goal should be to have the Mayor appoint, and the City Council concur in this appointment before July 1, 2013.
- **May-June: City Council and Mayor approval of the FY 2013-14 budget allocation and appropriation for the EDD and CEDN contract:** The budget for the EDD and a reserve for the initial operating year of the CEDN must be approved as part of the FY 2013-14 City Budget in June.
- **May: Mayor issues an Executive Directive forming an Economic Development Collaborative.** The Mayor should issue a new directive, similar to the recent Executive Directive No. 21: Development Services Collaborative, to establish internal coordination of economic development services of the EDD, CEDN and related departments and proprietary agencies, under the leadership of the Deputy Mayor for Economic Development.
- **May-June: Draft and negotiate CEDN service contract:** The CAO, CLA, and City Attorney would draft a service contract for the CEDN, assuming it has been formed by this point in time, and develop the administrative process for contract approval by City Council. The draft contract would be negotiated with the CEDN Chair and President, and ratified by the CEDN Board. The contract would then be approved by the City Council before the end of June.
- **July 1, 2013: EDD commences operation:** Depending on whether the new General Manager has been selected by this date, an Interim General Manager should be appointed to launch operations and oversee the transition of transferred functions, resources and personnel from other City departments including the City Clerk and CDD.

Simultaneously with the establishment of the EDD, and prior to July 1, 2013, the HR&A Team recommends that private sector leaders take the following steps to establish the new CEDN and contract with the City:

- Form CEDN and identify Board Chair candidates;
- Draft CEDN articles of incorporation and bylaws;
- File articles of incorporation with the Secretary of State, register the new entity with the State Attorney General, apply for federal tax-exempt status with the Internal Revenue Service, and also apply for State tax-exempt status with the Franchise Tax Board;
- Identify and select remaining Board members and appoint the founding Chair;
- Refine the first-year operating budget;
- Negotiate a service contract with EDD for approval by the Mayor and City Council;
- Appoint CEDN's founding President and initial staff.

## THE INITIAL YEAR OF EDD AND CEDN OPERATIONS

### Fiscal Year 2013-2014

The HR&A Team recommends that the two new organizations accomplish the following tasks during their initial year of operation, in order to set them on a course for appropriate, long-term operation.

#### The EDD

The initial year of operation for the EDD should include the following tasks and accomplishments:

- Identify and secure the personnel required to lead each of its operating divisions, including Strategic Planning & Policy, Business & Industry, Small Business Services, BIDs and Workforce Development. Assess and adjust the Workforce Development function transferred in from CDD and make recommendations for any appropriate adjustments.
- Develop a five-year business plan for each operating division, and the department as a whole, including a performance management system with measurable outcomes and other benchmarks.
- Execute and then monitor the CEDN contract.
- Continue to provide economic development services, including BusinessSource, WorkSource, and BID-related services, in accordance with City policy and grant-related agreements.
- Based on the internal review and business plans, make appropriate budget adjustment recommendations to Deputy Mayor for Economic Development and the CAO for the subsequent fiscal year (FY 2014-15).
- In consultation with the Deputy Mayor for Economic Development and the President of the CEDN, develop an approach and process for drafting a Citywide Economic Development Strategic Plan, and commence its preparation, with the goal of completing it for City Council approval by June 30, 2014.

- Develop working relationships with the General Managers of the allied City departments that support economic development, proprietary agencies, CEDN, and other economic development partners.

## The CEDN

The initial year of operation for the CEDN should include the following tasks and accomplishments:

- Prepare and adopt appropriate conflicts of interest policies and procedures.
- Prepare and adopt internal policies and procedures including financial controls, bank and borrowing resolution, human resources policies, procurement policies, and developer solicitation procedures.
- Recruit the staff personnel required to lead and staff each of its operating divisions, including Strategic Asset Management, Real Estate and Infrastructure Development, Transaction Services & Financing, and Strategic Planning & Policy Development.
- Develop a five-year business plan for each operating division, and CEDN as a whole, including measurable outcomes and other benchmarks.
- Serve as an active stakeholder in the CAO's and its selected consultant's review of citywide asset management, including helping to identify strategic City-owned assets, which should be managed and developed by CEDN, that could advance economic development goals.
- Work with the EDD and the CAO to develop asset disposition policies and procedures for approval by the CEDN Board and City Council. Identify Council-controlled properties that should be the highest priority for CEDN focus. Initiate discussions with the Proprietary Agencies to develop a real estate services agreement.
- Develop and adopt internal procedures for implementing transaction services and financing services, and coordinate with EDD as to applicable City approval procedures.

- Work with the Deputy Mayor and EDD to support development of the Citywide Economic Development Strategic Plan.
- Fulfill the terms and conditions of the City service contract, and work with the Deputy Mayor for Economic Development and General Manager of EDD to assess the request for City contract appropriation for CEDN in its second year of operations (FY 2014-15).
- Develop good working relationships with the General Managers of the allied City departments, proprietary agencies, EDD, and other economic development partners.