

EXECUTIVE SUMMARY

This study evaluates the work of the Los Angeles Business Team (LABT) in the Mayor's Office for Economic Development (MOED). The LABT was created by the Mayor in 1995 to attract and retain businesses in the City of Los Angeles by packaging public subsidies and expediting the business permitting process. Because the LABT is one of the driving forces behind the current approach to economic development in Los Angeles, a systematic analysis of its successes and failures is a necessary prerequisite to the creation of a more effective citywide economic development strategy. The City of Los Angeles needs a long-term plan for economic growth and equity that promotes good jobs, supports key regional industries, and involves an open and accountable decision-making process. Such a strategy should include targeted initiatives that proactively address the needs of businesses within growth industries, while ensuring that the resulting jobs are well-paying and accessible to city residents most in need.

This study makes several key findings on the performance of the Business Team. The LABT has scored an important success in making the development process more efficient for businesses seeking to expand in the city. However, by assisting businesses on an ad hoc basis, the LABT has not employed important economic development criteria to determine where to focus its resources. Though it has acknowledged the need to focus on specific growth industries, there is little evidence that it has pursued such a strategy. The quality of jobs in the businesses that the LABT assists has not been an important criterion to guide its actions and, until recently, it has not targeted the most disadvantaged areas of the city.

This study concludes that the LABT needs to establish more appropriate criteria for determining how to allocate its resources, improve the accountability of its decision-making, and show how its strategy creates good jobs. The LABT should be restructured away from its current Council District orientation and refocused on a clear economic development strategy that improves the competitiveness of key regional industries.

MAJOR REPORT FINDINGS

Strategy Issues

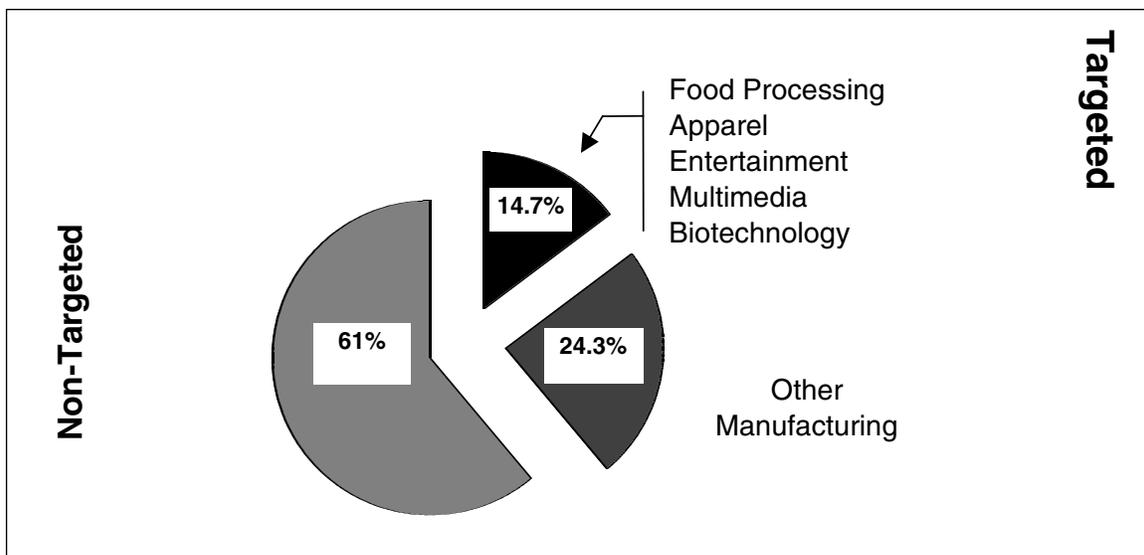
Finding #1: Job quality has not been a criterion in selecting firms for LABT assistance. The LABT has assisted a significant number of low-wage firms. In our sample of food processing companies, for example, 76 percent of the production employees in firms receiving substantive assistance from the LABT were paid wages below the city's living wage (\$7.51 with health benefits/\$8.69 without benefits). In the apparel industry, we estimate this figure to be 79 percent. Furthermore, the LABT provided more assistance to retail firms—which provide mainly low-wage, part-time jobs—than to all of their targeted industries combined. A full 25 percent of both subsidies and expediting assistance was directed at retail developments. A substantial proportion of these companies were fast food restaurants.

Finding #2: LABT assistance is only rarely pivotal to firm location decisions. The LABT has not been effective in attracting or retaining individual firms. In the four industries we studied, *no* firm interviewed considered LABT assistance to have been a pivotal factor in its decision to come to Los Angeles, leave Los Angeles, or expand in Los Angeles. Although we

did find evidence of a few firms whose location decisions were directly affected by LABT intervention, in general the value of the city assistance and subsidies being offered were not significant compared to other location factors. Furthermore, in several cases where Los Angeles was bidding against other municipalities for a business, LABT assistance and subsidies were offered to companies that did not intend to leave the city.

Finding #3: There is no evidence that the LABT has engaged in targeting growth industries since 1997. Though the LABT claims to have targeted a select set of high-growth industries since 1997, examination of their own data shows that these industries accounted for only 9 percent of subsidies and 15 percent of expediting or site location assistance. Targeted industries accounted for 14.7 percent of all assistance. The proportion of targeted industries actually assisted has not changed significantly since the inception of the LABT in 1995. While the LABT should be commended for recognizing the need to concentrate public resources on critical regional industries, there is no evidence that they have followed through on such a strategy. Figure ES-1 summarizes LABT industry targeting, including subsidies and expediting or site location assistance, over the period January 1997 to August 1998.

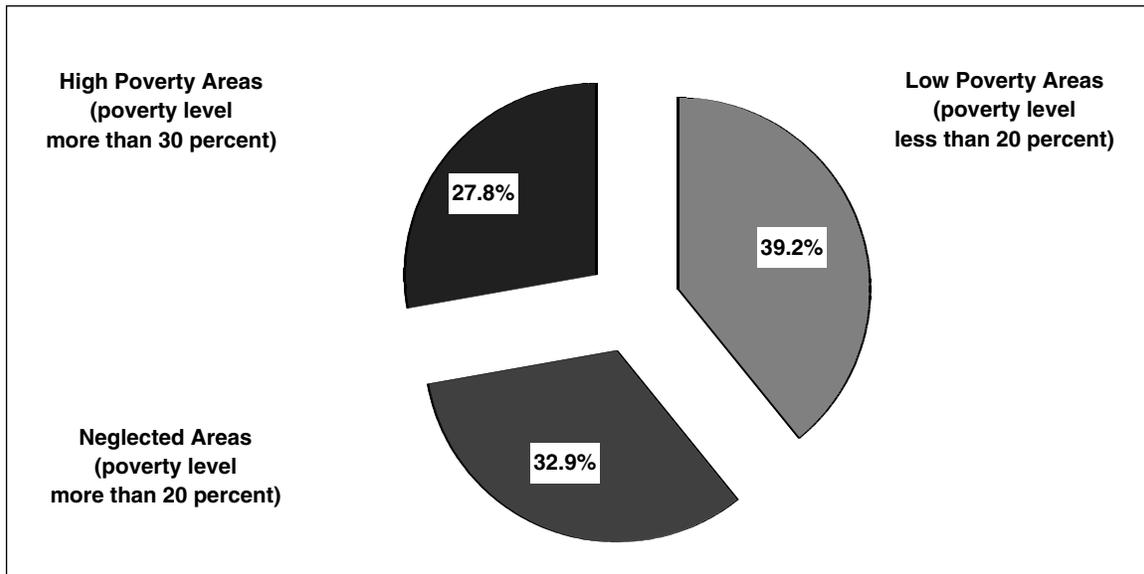
Figure ES-1: LABT Firm Assistance by Industry, 1997-1998



Source: LABT

Finding #4: Retail assistance was not targeted primarily at under-served communities. The Mayor’s Office has stated that, “Except in the city’s under-served communities, the private sector seems to do a good job of identifying and responding to retail opportunities without government interference.” However, the LABT has not concentrated retail assistance in poorer, underserved areas of the city. Thirty-nine percent of the retail firms provided with subsidies, expediting or site location assistance were located in low-poverty areas of the city, while only 28 percent were located in high-poverty areas. See Figure ES-2.

Figure ES-2. Assistance to Retail Firms, by Area Poverty Level



Source: LABT; United Way of Greater Los Angeles

Finding #5: The LABT has been successful in expediting the development permitting process. Most of the businesses that we interviewed cited bureaucratic red tape as one of the most difficult aspects in dealing with business expansion in Los Angeles. The LABT has been successful in making the development permitting process more efficient and accountable for individual businesses in the city, while the Mayor’s Office has established case management units in the Building and Safety and Planning Departments, a development liaison committee to coordinate city agencies, and brought new management to the Building and Safety Department.

Accountability Issues

Finding #6: The LABT has overstated its effectiveness. In their reports to the City Council, the LABT claimed to have assisted 2,442 firms and impacted 315,961 jobs from January 1995 through March 1998. Based on analysis of the LABT database and samples of firms from it in particular industries, over this period the LABT actually assisted about 31 percent—or 750—of those firms, which employed approximately 126,000 workers. We were able to corroborate this estimate by identifying 650 firms on the LABT list (27 percent of the total) that received subsidies, permitting or site location assistance—though this latter number may underestimate total assistance due to incomplete LABT records.

Finding #7: The LABT assisted mainly large firms in the industries studied. In all three industry case studies, firms contained in the LABT database were much larger than average for the industry. Discussions with the LABT revealed a preference for larger firms, as the main performance measure the LABT has used has been the number of employees in firms assisted. In the apparel industry, this had the effect of favoring manufacturers—which were mainly owned by Caucasians—over the smaller, minority-owned contracting firms.

Finding #8: Though Genesis L.A. addresses the important problem of insufficient industrial space in the city, the process of site selection and land-use decision-making thus far lacks public accountability. The City of Los Angeles suffers from a lack of developable industrial land. Many firm interviewees stated that finding room to expand in the city was a major factor influencing their ability to remain in the city. Ten of the fifteen Genesis L.A. sites involve the redevelopment of underutilized industrial space in the city. However, the process for choosing these sites for redevelopment and public investment has lacked accountability. Though a number of the sites are long-standing projects of the city, proposals for public investment at several sites were made by the Mayor's Office without input from Council Offices or community groups.

Organizational Issues

Finding #9: The LABT's current organization leads to firm assistance based on Council Districts, rather than a city-wide strategy. Since all LABT representatives are expected to assist firms in their Council Districts, there are strong incentives for representatives in Districts without targeted growth industries to focus their attention on retail development. The analysis of firms assisted in each Council District indicates that in those Districts without significant manufacturing, assistance to retail firms made up a large proportion of LABT activity.

Although the current structure of the LABT includes representatives in each Council District, firm assistance was not evenly spread among Council Districts. Certain Valley and Hollywood Districts were over-represented, while the Eastside and South Central were under-represented. The proportion of firms assisted ranged from two percent in Council District 1 to over ten percent in Council Districts 2 and 7. The lack of focus on poorer neighborhoods by a city-wide office like the LABT is surprising, and is undoubtedly attributable to the Council District structure. Table ES-1 summarizes the distribution of LABT assistance by Council District during the period 1995-1998, for those firms that we were able to confirm subsidies, expediting or site location assistance.

Finding #10: The LABT lacks industry-specific knowledge that would facilitate a coherent industry strategy. Many of the firms interviewed, especially in multimedia, suggested that businesses would be better served by the LABT hiring staff with more industry-specific expertise, or by building capacity in the current staff. A 1997 study commissioned by MOED itself recommended that, in order to implement an effective industry targeting strategy, MOED and the LABT would have to increase their in-house research capacity. The study concluded that MOED should establish a research program that "...would identify and establish a system to monitor the city's economy, perform economic development research and distribute information...The city would also be able to provide important site information...and develop state of the art long-term economic initiatives based on a realistic understanding of the city's economy."² There is no evidence that the LABT or MOED have instituted this recommendation.

**Table ES-1: Council Districts and LABT Firm Assistance,
January 1995 – August 1998**

Council District	Councilperson	% of Total Firms Assisted
1	Hernandez	2.1%
2	Wachs	10.1%
3	Chick	7.3%
4	Ferraro	9.0%
5	Feuer	8.5%
6	Galanter	6.5%
7	Padilla	10.3%
8	Ridley-Thomas	3.6%
9	Walters	7.1%
10	Holden	4.9%
11	Miscikowski	4.3%
12	Bernson	7.3%
13	Goldberg	8.9%
14	Pacheco	4.7%
15	Svorinich	5.4%
Total		100%
Total Firms		625

Source: LABT

RECOMMENDATIONS

Strategy Issues

The LABT should make job quality a central criterion for selecting firms to be assisted and industries to be targeted. The LABT should only work with low-wage firms for the purpose of improving job quality through technological and skill upgrading. There are many important low wage industries in Los Angeles, such as the apparel industry and segments of the food processing industry. The role of a public agency such as the LABT should be to improve wages and working conditions in such industries by fostering technological upgrading and improved worker skill-levels.

The LABT should abandon its current focus on attracting individual firms to the City of Los Angeles. Providing subsidies or waiving development fees for this purpose does not constitute a strategic use of public funds. Assisting individual firms without a coherent strategy often leads to subsidizing firms that will later leave the city or that would have made the same location decision without public funds. With few exceptions, the assistance the LABT offers does not affect firms' location decisions.

The LABT should develop a strategic approach to targeting key industries in the city, rather than assisting individual firms on an ad hoc basis. As one firm interviewed suggested, the LABT needs to develop strategic "business plans" for its interventions in targeted industries. The LABT has only assisted an estimated 0.5 percent of all multimedia and entertainment firms in the city, 0.8 percent of all apparel firms, and 5.4 percent of all food processing firms over four years.³ Since the LABT will not be able to help a significant proportion

of firms on an individual basis, public resources would be better spent addressing industry-wide infrastructure, site selection and development, financing, job training, technology upgrading, supplier development, and regional industry networking needs. A 1997 study commissioned by the Mayor's Office stressed the need to focus on "growing" emerging industries within the city through the development of industry incubators, support for industry associations and networks, and a strong research program to track targeted growth industries.⁴

In general, retail development should be only a minor focus of LABT activities. As the Mayor's Office has argued, public assistance to retail companies should only take place in poor, under-served areas of the city. Addressing the retail needs of such communities is an important public function, but Council Offices and the Community Redevelopment Agency, both of which are in direct contact with local neighborhood residents, are better situated to carry this out. On the other hand, retail development specifically targeted at the tourism industry—designed to draw spending from outside of the region—would be an appropriate focus for the LABT.

Expediting the development process should be part of a structural reform, not done on a firm-by-firm basis. Reforming the city departments responsible for permitting should allow the LABT to stop spending time and resources on permits. Because firms are assisted by the LABT on an ad hoc basis, expediting development through the Mayor's Office does not provide equal access to all businesses in the city.

Accountability Issues

The LABT should use meaningful indicators of its economic development impact, improve record-keeping, and report regularly to the public. Merely adding up the numbers of firms contacted, and the jobs in those firms, does not accurately reflect the impact of the LABT's activities. In particular, it does not measure the quality of jobs in firms being assisted. The LABT needs to adopt an outcome-based system of record-keeping and reporting that focuses not solely on the numbers of jobs in firms that were substantively assisted, but includes such indicators as wages and benefits at companies assisted, type and value of assistance provided, and a meaningful breakdown of industries assisted. The LABT should also report on the strategy it is employing to target specific industries. Reports should be submitted at least semi-annually.

The LABT should devise a strategy to assist all segments of targeted industries, not just the large firms. There was no evidence that the bias toward large firms was based on an economic development strategy. In some industries, a focus on large firms might be justified, but in other industries government intervention might be most useful in supporting small firm formation and growth.

Make job access and job training a priority. Job access, especially in traditionally closed industries such as entertainment and multimedia, should be a priority for the LABT. To this end, the LABT should work with area training organizations, such as the city's newly reorganized One-Stop training centers, community colleges and trade schools, to support industry-specific programs for apprenticeship and job placement. Several of the entertainment firms interviewed indicated that they would be receptive to such programs.

Organizational Issues

Reorganize LABT from the current Council District approach to functional teams.

Instituting a targeted industry approach to economic development is difficult when LABT representatives are assigned to specific Council Districts, because industries naturally spread across Council District lines. In addition, some firms interviewed reported that the current Council District organization of LABT representatives duplicates, and sometimes conflicts with, the neighborhood economic development activities of individual Council offices. Though three senior LABT representatives currently operate beyond Council District boundaries, a large portion of LABT representatives should be reorganized into industry teams and charged with researching, understanding and developing key industries in the city. Other teams could focus on policy issues, Genesis L.A.-type redevelopment, or regional leadership.

The LABT and MOED should develop a strong, in-house research capacity.

Targeting industry clusters requires staff with a good understanding of the industries in question. The LABT should follow the recommendation of its 1997 commissioned study on growth industries by dedicating several staff members to researching trends in the city economy, the trajectories of key industries, as well as an inventory of available industrial space in the city. This could be done in cooperation with the Los Angeles Economic Development Corporation, which carries out these activities on a regional basis, and with local universities. This information should be made available not only to developers and private companies, but to other city economic development agencies and non-profit organizations, as well as labor.

Include a broader range of stakeholders in the economic development process.

It is not surprising that a “business team” focuses on business. However, to the extent the focus of the office is evolving to support the development of industry clusters, as the LABT now claims, and serving as a coordinator of city economic development activities, there are broader groups—such as labor, non-profit organizations, educational institutions, training centers—that should be included in discussions. The experience thus far with Genesis L.A. is not encouraging in this regard.

Move to consolidate the city’s economic development functions in a single agency.

As long as the economic development agencies in the city are fragmented, there is an important coordinating function for MOED and the LABT. However, a superior solution would be to consolidate economic development functions, as the Mayor originally proposed. This would eliminate duplication and allow for the creation of a departmental division focused solely on the implementation of a city-wide economic development strategy.

EXECUTIVE SUMMARY ENDNOTES

¹ Chief Operating Officer, Correspondence to Councilwoman Chick on Economic Development Incentives Task Force Report, August 22, 1995, p. 3-4.

² PS Enterprises, *Economic Recovery Action Plan for Specific Growth Industries: Final Report*, prepared for MOED, EDA Strategic Planning Unit, April, 1997, p. 36.

³ Citywide firm figures from PS Enterprises, *op. cit.* Figures are from 1996.

⁴ PS Enterprises, *op. cit.*