Executive Summary

Introduction

This study evaluates the commercial development activities during the 1990's of the Community Redevelopment Agency of the city of Los Angeles (CRA), the oldest and best-known economic development agency in the city. Although we focused our evaluation on the CRA's commercial development activities, agency activities have varied widely, ranging from affordable housing to childcare provision to transportation and infrastructure development. In particular, until the recent budget squeeze forced a drastic reduction, the CRA devoted significant resources to low and moderate income housing development in areas of the city that have seen little private housing construction.

We focused on CRA commercial development because we wanted to evaluate the actual "return" that the city — including both taxpayers and community residents — has received on its investment in private commercial real estate activities. From 1990 to 1997, the CRA spent a total of $193 million dollars on commercial development — about 14 percent of city economic development spending. Yet, there has been little evaluation of how that money was invested or what taxpayers and communities actually received in "return."

Because "return on investment" is a somewhat ambiguous term, we addressed the following questions specifically related to community-based economic development:

1. What types of commercial development does the CRA fund?
2. What public subsidies are invested in CRA projects?
3. What is the tax return to the city and the agency from CRA projects?
4. What types of jobs does CRA development create?
5. Do commercial tenants benefit from CRA subsidies?
6. How accountable are CRA commercial development activities?

Summary conclusions

We conducted nine in-depth case studies of CRA projects, most of which were completed between 1990 and 1997. Together they accounted for about one half of CRA commercial spending for 1990 to 1997. We evaluated these projects based on employment outcomes, the impact of redevelopment on commercial tenants in subsidized projects, and the tax return on the public investment.

Overall, we found that the CRA has generated a substantial amount of economic development activity in many low income areas during the 1990s. However, we found the record of "return" on that investment—in the broadest economic development sense—decidedly mixed. In some cases, such as a small neighborhood shopping center development or a food processing company seeking to expand, subsidies brought in unionized jobs and needed services at a limited public cost. In other cases, we found a pattern of low-wage jobs, high rents for smaller tenants, overly optimistic projections and a lack of evaluation. Indeed, the mixed performance of the projects studied suggests that city government as a whole lacks an overall economic development strategy.

In the past two years, we did find a promising new trend in CRA projects that puts greater focus on economic development outcomes, such as job quality. We see this as a step in the right direction.

Our hope is that this report will provide constructive recommendations that help guide the city in formulating the future direction for the CRA. The nine projects evaluated often originated in the offices of the Mayor or one of the city council members. Because the CRA often works in partnership with other city officials, we hope that this evaluation will be considered by the City Council, the Mayor and the City as a whole.

Recommendations and Findings

Based on our key findings, we make the following recommendations for improving the accountability of commercial redevelopment in the City of Los Angeles:

Recommendation 1. Consolidate city economic development functions into one department, including the CRA.

Finding: CRA squeezed by declining tax increment, more responsibilities. The CRA's ability to take on new projects has been severely hampered by a decline in property tax increment receipts—the main source of CRA funding. The decline has resulted from a downturn in the Southern California real estate market and the subsequent downward reassessment of properties in CRA project areas. Total tax increment receipts to the CRA fell from $148 million in 1992 to just $82 million in 1998, and the agency projects tax increment at or below this level over the next five years. As tax increment receipts have declined, the number of project areas has ballooned, from 19 before 1992 to 32 now, forcing the agency to look for other funding sources.

Finding: CRA debt is absorbing most of the budget. All of the CRA tax increment in the Central Business District, Bunker Hill, and Hollywood is currently going to pay off debt. As a result, the CRA projects that of the $85 million in tax increment expected in 1999-2000, all but $8 million will go to repay debt. This financial squeeze has reduced all CRA programs, but the housing budget has been reduced the most. The agency has been forced to reduce its staff as a result.

Discussion: The Los Angeles City Council is now considering a proposal to consolidate economic development functions, currently scattered across city agencies, into one department. Under the proposal, the City Council would bring redevelopment under the direct control of the city. Since the CRA is increasingly being used by the city as its *de facto* economic development agency—administering Economic Development Administration-funded projects, Brownfields programs, and the Targeted Neighborhood Initiative—it makes sense to bring the CRA into the city government, so that these functions could be better coordinated. Also, the search for property tax increment to fund administrative expenses has perverse incentives on the agency's priorities that could be mitigated if it were a part of the city.

Recommendation 2. A more balanced portfolio of commercial investment should include less overall retail development, and a greater emphasis on smaller projects.

Finding: Over-investment in retail development. An analysis of CRA commercial expenditures in the 1990s reveals that retail projects were the overwhelming focus, with 65 percent of the $193 million in commercial expenditures devoted to new retail projects and rehabilitating existing retail corridors. Two projects alone, the Grand Central Square, a mixed-use retail project, and Baldwin Hills Crenshaw Plaza, a retail mall, accounted for 33 percent of the total commercial development budget. There are several reasons to be concerned about an over-emphasis on subsidizing retail, including the general over-development of retail in the county, the low quality of retail jobs, and the lack of positive employment multiplier effects in the community.

Finding: CRA's focus on retail development created many part-time, low-wage jobs. The CRA's overemphasis on retail development has meant that many of the jobs created during the 1990s are low-wage and part-time. A total of 3,400 jobs were created or retained at the nine projects studied. Of those, more than 55 percent are retail jobs that pay an average wage of less than $8 an hour, below the $8.32 an hour needed to keep a family of three off public assistance.[1] Most (about 70%) paid an average wage of less than $6.50 an hour. Though these developments employed members of the local communities, jobs that went to local residents were more likely to be part-time.

Finding: Large subsidies to retail did not pay off. In reviewing the case studies, the most striking aspect of the subsidy and tax return calculations is that the large-scale retail projects were not good investments. Using a 30-year time horizon to calculate the tax revenue return on investment of public funds, Baldwin Hills Crenshaw Plaza breaks even only if one ignores the interest rate subsidy on the bond financing. Otherwise, the project loses $25 million. Grand Central Square (which also includes housing) is heavily subsidized no matter how one looks at it: we estimate a return of $6.5 million in local taxes over 30 years on a public investment of $46 million. Both projects generated part-time, low-wage jobs. These are not the projects one would choose to put the most money in if good jobs were a high priority.

[1] If health benefits are not included, the hourly wage required to keep a family of three off CalWORKS is $9.46, according the Los Angeles County Auditor-Controller's office.

Finding: Small neighborhood shopping centers showed better results. The smaller shopping centers, on the other hand, cost much less (subsidies of $6.5 million and $3.5 million), showed positive net returns ($1.2 million and $660,000), generated decent quality jobs in the unionized supermarkets,[2] and served real public needs. Retail development can have the useful goal of providing services to under-served areas, as it did for Adams Vermont, a South Los Angeles neighborhood that had been abandoned by the major chains. The three unionized supermarkets that were part of the CRA developments we studied paid an average wage to non-supervisory employees of $8.00 per hour with full benefits, although almost 80 percent of the 340 supermarket jobs were also part-time.

Discussion: The large-scale retail developments undertaken by the CRA have not provided either quality jobs, or a real tax return to the city. The development of small neighborhood shopping centers with supermarkets demonstrates much better financial and employment outcomes. If the CRA confined itself to this scale of retail venture, its spending on retail would be much less objectionable.

Recommendation 3. A more balanced portfolio of commercial investment should include a greater emphasis on industrial development.

Finding: Under-investment in industrial development. Industrial development, which accounted for only 3 percent of commercial expenditures during the study period, has played a minor role in CRA activities during the 1990s. The CRA currently has only one active project area that is primarily industrial in nature, the Wilmington Industrial Park in the Los Angeles Harbor project area, though several proposed project areas have industrial uses. The CRA, in partnership with the city, is making an effort to increase its capacity to deal with the complex legal and environmental issues surrounding Los Angeles' vacant or underutilized industrial lands. Still, the resources available to the city for cleanup—about $15 million in federal and city "Brownfields" funds over three years—are limited, especially compared to the more than $150 million in public financing that is being used for two new retail and entertainment complexes, the Staples Center and Hollywood & Highland.

Finding: CRA's sole industrial project area created higher-paid jobs. The quality of jobs in the industrial developments completed in the 1990s are much better than at the retail projects. These projects provide good jobs for people who do not have higher education, a key concern for the city. Workers earn an average wage of $11.18 an hour at Cooper & Brain, an industrial building with four tenants, and $14.00 per hour at Juanita's Foods, a food processing company.

Finding: Industrial projects will require outside funding. While the industrial projects studied returned little money to the city or the CRA, they did not lose money and cost relatively little. However, the agency has little tax increment with which to work in its sole industrial project area. The area's needs—toxics remediation and land assembly—

[2] Baldwin Hills Crenshaw Plaza also has a large unionized supermarket.

are ideally suited to the tools available to the CRA. If the CRA had more control over other types of funds and needed to worry less about property tax increment, it could raise the share of spending on industrial projects (see Recommendation 1).

Discussion: Los Angeles still has a strong manufacturing base that needs support and could benefit from the tools available to the CRA. The recently-instituted "Brownfields" program, which partners the CRA with other city agencies to deal with the legal and environmental issues involved in the redevelopment of contaminated industrial land, is a step in the right direction, as are the proposed, largely industrial, eastside project areas. The CRA cannot generate enough tax increment to fund such development, however, arguing for utilizing other funds in CRA industrial project areas.

Recommendation 4. Provide support for independent merchants, not just developers.

Finding: Most tenants do not benefit from CRA subsidies. Economic theory predicts that subsidies are capitalized into property values, thus benefiting the property owner. Interviews with tenants of the commercial retail projects studied confirm that they do not generally benefit from subsidies to developers. Some chain stores received subsidies, but many of the owner-occupied stores complained to researchers of high rents. These findings were particularly striking in the larger, more highly subsidized projects studied. At Grand Central Market, the small shopkeepers have tried to organize to reduce rents, and those surveyed said that rents remain high, even as sales have lagged since the redevelopment. At Baldwin Hills Crenshaw Plaza, rents are almost 50 percent higher than at a Burbank mall owned by the same developer.

Discussion: The CRA should work to ensure that local businesses in CRA projects are not squeezed by high rents, so that they can provide better wages and working conditions for employees. A health insurance fund was established for the tenants of the TrizecHahn development to reward those who pay their employees a living wage. Such assistance, along with rent subsidies, should be evaluated for use in other CRA projects. The CRA should not invest $46 million of public funds in a project like Grand Central Square and then do nothing to assist the small shopkeepers in the market or their workers.

Recommendation 5. Adopt a Living Wage policy for commercial redevelopment projects to ensure better job quality outcomes.

Finding: Many of the CRA developments we studied created mainly low-wage jobs. As noted above, over 70 percent of the 1,900 retail jobs created or retained in CRA-subsidized developments paid an average wage of $6.50 an hour. The quality of jobs in a CRA-subsidized San Pedro hotel suffered when the second in a string of owners forced out the employee union. Now room attendants at the hotel complain of low wages and poor working conditions. Finally, custodians in CRA-subsidized offices earn an hourly wage of about $6.50. Since retail workers, office custodians and the hotel maids do not earn much above minimum wage, these projects cannot be considered completely successful public developments.

Finding: Larger subsidies did not translate into better job quality. In the projects studied, there was no correlation between the quality of the jobs created and the amount of the CRA subsidy to the developer. The largest subsidies went to projects with some of the worst jobs. For example, the Baldwin Hills Crenshaw Plaza developer received $53,725 for each job created, compared to only $12,000 per job at the Cooper & Brain industrial park development. However, non-supervisory employees at the mall earn an average wage of $6.50 an hour, compared to $11.20 an hour at Cooper & Brain (See Table ES-1).

Finding: The city's Living Wage Ordinance has already led to an increased attention to job quality in recent CRA developments. CRA development agreements have lately been influenced by the city's passage in 1997 of the Living Wage Ordinance, which requires city contractors and large subsidy recipients to pay their employees $7.39 an hour with benefits, or $8.64 without. Though the CRA was exempted from the ordinance for legal reasons, some of the larger, recent projects, subsidized with city money, are covered by the ordinance. In an unprecedented agreement, due to the efforts of Councilmember Jackie Goldberg, the developers of the Hollywood & Highland project agreed to create an incentive program to encourage project tenants to adopt a living wage. The developer also agreed to remain neutral during a successful union organizing drive at a soon-to-be remodeled hotel. The CRA is also considering the adoption of a Living Wage policy for contracts and commercial developments.

Discussion: A living wage policy can make the difference between poverty and self-support for families working in low-paying service sector occupations. A Living Wage Policy for CRA is currently on the table, and would also cover commercial tenants, who are responsible for most of the employment. Under the proposal, an opt-out clause would be available for those tenants that could prove significant financial hardship.

Recommendation 6. Support quality jobs through targeted subsidies, unionization, and labor peace compacts.

Finding: Hotels and office buildings generate large enough tax returns to support subsidies to guarantee better jobs for the service workers. The hotel and office developments both provide a substantial tax return to the city and the CRA. A big office building, like Pacific Place, essentially functions as a cash register for both the city and the CRA, with an estimated net return on the pubic subsidy of $16.4 million over 30 years. Even a poorly performing subsidized hotel, like the Sheraton San Pedro, provides a substantial net local tax return (estimated at $26 million). These types of developments return enough money to the CRA and the city that they could afford to offer subsidies specifically to ensure that good jobs are created for the service workers.

Discussion: Another way for the CRA indirectly to promote quality jobs at CRA developments is to encourage, where appropriate, the signing of agreements between employers in CRA developments and labor unions to guarantee labor peace at those projects. The past experience of disruptive union protests around CRA-subsidized hotels that were built in the 1980s, like the New Otani and the Intercontinental in Downtown LA, suggests that a labor peace policy would improve the overall success of CRA projects. The CRA should support such agreements just to protect its investment in the development projects that it assists. However, it is a fortunate byproduct that, where labor peace is guaranteed, workers generally have a greater ability to organize a union—and unionization in turn means better quality jobs.

Recommendation 7. Require a developer guaranty for the use of general fund bonds.

Finding: The CRA is increasingly turning to the City for new forms of financing. Because the CRA faces declining property tax increment receipts, the agency has turned to the city to help finance large, catalytic projects. The Staples Center and Hollywood & Highland financing packages involve city-issued—as opposed to CRA-issued—bonds. A city policy on the use of these bonds recommends, but does not require, that they be guaranteed by the developer. Issuing bonds without a developer guaranty raises the concern that if cost and revenue projections do not match reality (as in the case of Grand Central Square) the city's general fund could be negatively impacted. In an effort to avert such a scenario, Councilmember Joel Wachs successfully worked to require that the developers of the Staples Center guarantee repayment of the city portion of the $70 million in public financing for the project.

Discussion: The city should strengthen its policy on the use of general fund-backed bonds, and require that developers provide letter of credit guaranties, just as the state's Industrial Development Bond program does. Our case studies of CRA projects suggest that optimistic forecasts do not always match expectations. The recently-established policy on the use of city financing to fund catalytic projects in redevelopment areas (and in other parts of the city) is too vague, both in terms of its economic development goals and its financial criteria.

Recommendation 8. Evaluate projects according to conservative cost estimates.

Finding: Subsidies grow over time. In four out of the nine projects studied, subsidies were greater than anticipated. In the two largest projects, Baldwin Hills Crenshaw Plaza and the mixed-use Grand Central Square, the size of public participation was drastically underestimated, by $26 million and $16.5 million, respectively.

Discussion: Now that the city is becoming more involved in financing large projects, the CRA and the city should evaluate the worthiness of projects using the most conservative cost estimates. In several of the cases studied, projects were much less successful—and cost the agency more—than originally anticipated. Some of the poor performance may be attributed to the recession, but the CRA (and the city) should, nevertheless, be realistic about cost projections since the projects it finances are often riskier than those undertaken by the private sector alone.

Recommendation 9. Improve reporting on job creation, job quality and subsidies.

Finding: CRA record keeping on subsidies needs improvement. Though CRA staff proved willing to provide the many documents requested by researchers, the agency's record keeping procedures are severely lacking. The CRA maintains seriously incomplete files on individual projects in its record center. The main ongoing published sources of information on project area activities, the five-year Implementation Plans, do not contain information on the size of subsidies to commercial redevelopment projects, nor do they report on the employment impacts of projects.

Discussion: CRA progress reports should include standard figures on the number of new and retained jobs associated with CRA-assisted projects and self-reported information on wage levels and benefits from business owners. The CRA should also report on the on-going costs of the projects (calculated in constant dollars), and subsidies to developers, since they can often grow over time.

Recommendation 10. Institute regular evaluations of commercial projects.

Finding: Lack of evaluation of commercial projects. The CRA provides no regular evaluations of the costs and benefits of commercial development projects. While job creation is often an explicit objective of subsidized projects, the agency does not systematically monitor whether or not the projects actually create the jobs promised, nor does it evaluate the quality of created jobs. The lack of data on job creation and project costs for commercial development contrasts sharply with the strict reporting requirements mandated for affordable housing provision.

Discussion: The collection of data about job creation, job quality, and subsidies to developers will help the CRA to evaluate its commercial development activities. Regular evaluations should identify the types of industries the agency assists, and will help the CRA be more strategic in its use of scarce resources.

Summary Tables

Our findings are based in part on data summarized in the tables below. Table ES-1 provides information on the number of employees at each of the developments evaluated, the subsidy per job associated with each development, and the average wage of non-supervisory employees. Also included in the table is the estimated average annual earnings for the employees in the CRA-assisted developments. Table ES-2 shows the estimated tax return to the city and the CRA on the subsidies to the CRA projects.

Table ES-1: Employment Impacts in CRA Case Studies

Case Study	**# Employees**	**Subsidy/Job**	**Avg. Wage** (Non-supervisory employees)	**Estimated Annual Earnings by SIC[a] (1997$)**
Retail				
Baldwin Hills Crenshaw Plaza	1300	$ 53,725	$ 6.53	$ 15,059
Grand Central Square	230	$ NA[b]	$ 6.00	$ 13,957
Vineland Magnolia Shopping Center	210	$ 30,995	$ 7.30	$ 17,202
Adams Vermont Shopping Center	130	$ 27,062	$ 7.80	$ 19,843
Industrial				
Juanita's Foods	175	$ 24,390	$ 14.00	$ 28,290
Cooper & Brain	44	$ 12,607	$ 11.18	$ 38,251
Hotel				
Sheraton San Pedro	130	$ 24,410	NA	$ 18,096
Office				
Academy Office Complex	600	$ 15,062	NA	$ 45,640
Pacific Place	568	$ --[c]	NA	$ 56,638

a. Gross earnings for each project was estimated by dividing gross payroll figures by employment for the appropriate Standard Industrial Classification code for industries represented in those buildings.
b. Since Grand Central Square was a mixed-used project, the subsidy per job is not calculated.
c. There was no apparent subsidy for the Pacific Place office building.
NA: Not Available

Table ES-2: Tax Return on Investment in CRA Case Studies

	All figures are in constant 1997 dollars				
	Property Tax Increment[a]	**City Taxes** *(Over 30 yrs)*	**Total Return**	**Subsidy**	**Present Value of Project**
Retail/Mixed Use					
Baldwin Hills Crenshaw Plaza	$10,676,237	$33,739,967	$44,416,204	($69,843,000)	($25,426,796)
Grand Central Square	$1,510,742	$5,065,560	$6,576,302	($46,251,801)	($39,675,499)
Vineland Magnolia	$2,071,504	$5,095,180	$7,166,684	($6,509,001)	$657,683
Adams Vermont	$764,552	$3,910,586	$4,675,138	($3,518,047)	$1,157,091
Industrial					
Juanita's Foods	$1,047,118	$3,210,180	$4,257,298	($4,268,310)	($11,012)
Cooper & Brain	$175,675	$901,830	$1,077,505	($554,713)	$522,792
Hotel					
Sheraton San Pedro	$2,836,835	$26,279,220	$29,116,055	($3,173,281)	$25,942,774
Office					
Pacific Place	$5,643,703	$10,782,420	$16,426,123	$0	$16,426,123
Academy	$5,628,944	$6,020,910	$11,649,854	($9,037,016)	$2,612,838

[a]Tax increment receipts were estimated from a project's completion date to the termination of the project area.