*** NOTE: TO RETURN TO THIS PAGE, CLICK ON THE COUNTY SEAL ***

CLICK HERE FOR CHIEF EXECUTIVE OFFICER'S REPORT DATED JUNE 30, 2017

CLICK HERE FOR CHIEF EXECUTIVE OFFICER'S REPORT DATED SEPTEMBER 26, 2017

County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

SACHI A. HAMAI
Chief Executive Officer

June 30, 2017

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Sachi A. Hamai
Chief Executive Officer
Jim Jones for

IMPLEMENTATION OF COMMUNITY PARTICIPATION ON ECONOMIC DEVELOPMENT PROJECTS (ITEM NO. 3, AGENDA OF MARCH 14, 2017)

On March 14, 2017, the Board of Supervisors (Board) adopted a Motion (Motion) by Supervisors Solis and Hahn that called for the Chief Executive Officer (CEO), in consultation with the Economic Development Policy Committee, to execute the Community Participation Implementation Plan as described in the CEO's March 8, 2017, report to the Board. The motion further called for the CEO, in consultation with County Counsel, to prepare an Economic Development Project Policy and return to the Board in 90 days with a recommended policy for Board consideration and adoption.

PROGRESS TO DATE

The draft Economic Development Project Policy (Policy) was originally approved by the Economic Development Policy Committee at a meeting of February 9, 2017. The Policy was then submitted to the Board in the aforementioned CEO report of March 8, 2017. Following the Motion of March 14, 2017, the CEO initiated the process of placing the Policy on the agenda of the County's Audit Committee in order to receive that committee's approval before returning to the Board for final adoption. On May 18, 2017, the Audit Committee continued discussion on the Policy and elected not to vote on its approval. On June 15, 2017, the Audit Committee again continued the item and postponed consideration of the Policy until July 20, 2017.

NEXT STEPS

At the time following Audit Committee approval of the Policy, the CEO will return to the Board with the recommended Policy for consideration and adoption. The CEO, therefore, requests a 90-day extension to comply with the Motion and allow the Audit Committee sufficient time to vote on the merits of the Policy.

If you have any questions, please contact Doug Baron at (213) 974-8355, or dbaron@ceo.lacounty.gov.

SAH:JJ:DSB
CMT:acn

c: Executive Office, Board of Supervisors
County Counsel
Community Development Commission
Consumer and Business Affairs
Economic Development Policy Committee
Workforce Development, Aging and Community Services

County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

30-5

SACHI A. HAMAI
Chief Executive Officer

September 26, 2017

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

From: Sachi A. Hamai
Chief Executive Officer

fr. Sean Rogan, Executive Director
Community Development Commission

REPORT BACK ON THE COUNTY ECONOMIC DEVELOPMENT TRUST FUND (ITEM NO. 7, AGENDA OF APRIL 18, 2017)

On April 18, 2017, the Board of Supervisors (Board) adopted a Motion (2017 Motion) by Supervisors Mark Ridley-Thomas and Kathryn Barger instructing the Chief Executive Officer (CEO) and the Executive Director of the Community Development Commission (CDC) to report back in writing with recommendations regarding the efforts and strategies to implement the economic development policy initiatives that were included in the Board Motion of October 20, 2015 (2015 Motion). On August 15, 2017, the CEO requested an extension to further review the budgetary matters included in the 2017 Motion and to address the programmatic impact of specific economic development initiatives. The CEO committed to work with the CDC to provide a final report back to the Board at the time of the Supplemental Budget on September 26, 2017.

In the August 15, 2017 report to the Board, the CEO responded to several of the directives included in the 2017 Motion. The items that required additional review are addressed below:

<u>County Economic Development Trust Fund</u>

The 2015 Motion established the County's Economic Development Trust Fund (Trust Fund) and authorized an initial transfer of $965,000 in Fiscal Year (FY) 2015-16 to initiate a series of economic development initiatives. The annual funding for the Trust Fund was then scheduled to begin at $4.5 million in FY 2016-17 and increase to an annual amount of $15 million by FY 2021-22. The 2015 Motion did not provide specific direction regarding the funding allocations, if any, that were to be maintained following FY 2021-22.

The 2017 Motion directed the CEO to review the funding allocations prescribed by the 2015 Motion and to provide recommendations regarding the use of one-time versus ongoing resources, and any carryover funds that may occur in future years. The CEO has now concluded its review of the five economic development initiatives identified in the 2015 Motion and recommends the following funding strategies:

Community Business Revitalization Program - RENOVATE

The Community Business Revitalization Program (RENOVATE) is managed by the CDC and is designed to stimulate investment in the community, revitalize commercial corridors, and support the growth of small businesses. The CEO recommends that the RENOVATE Program be funded with ongoing Net County Cost (NCC) that increases to $3 million annually by FY 2021-22. This expenditure level is consistent with the 2015 Motion and will continue to be funded at $3 million annually beyond FY 2021-22. Any carryover funds will be retained in the Trust Fund for future use.

Manufacturing Revolving Loan Fund

The Manufacturing Revolving Loan Fund (Manufacturing Fund) is managed by the CDC for the purpose of assisting manufacturers by providing access to capital for the development, expansion and retention of manufacturing jobs. In accordance with the 2017 Motion, the CDC is utilizing focused marketing strategies to target loan opportunities in the cleantech sector. The CEO recommends that the Manufacturing Fund be supported with one-time funding that will increase to $3 million by FY 2021-22. Given the revolving nature of this fund, the CEO does not recommend any funding beyond FY 2021-22. The $3 million amount in FY 2021-22 is consistent with the 2015 Motion. Any carryover funds will be retained in the Trust Fund for future use.

Catalytic Development Loan Fund

The Catalytic Development Loan Fund (Catalytic Fund) is managed by the CDC to promote infill and brownfield development along transit corridors in the unincorporated areas of the County. The CEO recommends that the Catalytic Fund be supported with one-time funding that will increase to $3 million by FY 2021-22. Given the expectation of future loan repayments to the Catalytic Fund, the CEO does not recommend any funding beyond FY 2021-22. The $3 million amount in FY 2021-22 is consistent with the 2015 Motion. Any carryover funds will be retained in the Trust Fund for future use.

Bioscience Investment Fund

The 2017 Motion directed the CEO to manage the Bioscience Revolving Loan Fund on a going-forward basis and to consider re-positioning the fund as a "fund-of-funds" that lends to one or more equity funds and supports early-stage investment in the bioscience sector within Los Angeles County. The CEO has re-characterized the fund as a Bioscience Investment Fund (Bioscience Fund) and has begun the process for selecting a fund manager to oversee future investments. In terms of budget allocations, the CEO recommends that the Bioscience Fund be supported with one-time funding that will increase to $4 million by FY 2021-22. In spite of the fact that the Bioscience Fund is not technically a revolving fund, the CEO does not currently recommend any funding beyond FY 2021-22. The $4 million amount in FY 2021-22 is consistent with the 2015 Motion. Any carryover funds will be retained in the Trust Fund for future use.

Industry Sector Strategies

The 2015 Motion directed the County to establish a grant program for economic development firms to initiate industry cluster-building efforts within Los Angeles County. As described in greater detail later in this report, the CEO has re-designed this program to emphasize industry sector analysis and career development opportunities. The CEO recommends that the re-designed Industry Sector Strategies program be funded with one-time funding of $500,000 annually. This annual amount will not change over time and will be discontinued following FY 2021-22. This funding strategy represents a significant reduction in costs relative to the 2015 Motion, which recommended a funding amount of $2 million by FY 2021-22. Gross NCC savings over the period from FY 2018-19 through FY 2021-22 will equal $4.2 million. Further, the CEO recommends that any unspent monies be deposited into the General Fund and not carried over into a future fiscal year.

The funding allocations provided above represent a savings of $6.7 million through FY 2021-22 relative to the 2015 Motion. These savings result from a $2.5 million reduction in funding for FY 2017-18 (approved as part of the 2017-18 Recommended Budget) and $4.2 million of additional cost reductions relative to the Industry Sector Strategies program. Further, the current funding schedule provides for a distinction between one-time monies and ongoing NCC, and establishes a funding end-date for the majority of the economic development initiatives. The CEO anticipates funding all one-time requirements with proceeds from the sale of assets owned by the former redevelopment agencies.

Manufacturing Revolving Loan Fund

The CDC administers an extensive portfolio of lending products aimed at providing capital for small and medium-sized commercial and industrial companies to grow and create jobs. Borrowers have used the funds from loan programs for real property acquisition, working capital, construction, and equipment and machinery purchases. The CDC's loan programs are primarily marketed toward new businesses and expansion and/or relocation of existing businesses.

Prior to the 2015 Motion, the primary funding sources for the CDC's business loan programs were provided through the Community Development Block Grants (CDBG) and various Economic Development Administration (EDA) programs. Both are federal funding sources with an emphasis on job creation, neighborhood and business development and assistance to those in economically distressed neighborhoods. The CDC's portfolio was then further rounded-out in FY 2016-17 with the introduction of the Manufacturing Fund.

As referenced earlier in this report, the Manufacturing Fund was designed to assist manufacturers by providing access to capital for the development, expansion and retention of manufacturing jobs. Specifically, the Manufacturing Fund targets local small and medium-sized manufacturers located in the unincorporated areas of the County. The loan funds may be used for land acquisition, new construction or real property improvements, inventory, working capital, machinery and equipment, leasehold improvements, and debt refinancing. Loans must be secured with collateral, range from $100,000 to $500,000, and are provided at below market rates, with terms of five to seven years for working capital, 10 years for equipment, and 20 years for real estate.

As the table below indicates, the CDC currently has more than $2.9 million of loans in the pipeline, either committed or in process, for FY 2017-18:

COMPANY TYPE	SUPV. DISTRICT	LOAN AMOUNT	STATUS	USE OF FUNDS	FUNDING SOURCE
Wine Maker	1	$150,000	Funded	Working Capital / Equipment	EDA
Auto Parts Manufacturer	1	$300,000	Funded	Working Capital / Equipment	CDBG
Water District	2	$400,000	Underwriting	Construction	CDBG
Tire Recycler/ Manufacturer	2	$100,000	Funded	Working Capital / Inventory	MRLF
Medical Manufacturer	5	$1,400,000	Approved	Commercial Building Acquisition	EDA
Medical Manufacturer	5	$90,000	Funded	Working Capital	CDBG
Professional Services Law Office	1	$480,000	Approved	Commercial Building Financing	EDA
Total Funding Commitment		**$2,920,000**			

As shown above, in the first quarter of FY 2017-18, the CDC funded four loans and approved an additional two loans. Those four loans allowed businesses to retain 10 jobs and create an additional 17 jobs. At this rate, the CDC is on pace to increase loan yields threefold.

To further cultivate the manufacturing pipeline, the CDC is in the process of hiring two additional commercial loan officers to focus on targeting manufacturing companies in the unincorporated areas of Los Angeles County. In addition, the CDC has engaged a marketing company, Allegra, to work on the development of marketing materials and targeted marketing campaigns. The CDC has also engaged two loan underwriting consultants to assist in reviewing and underwriting credit applications, and presenting them before the loan committee for consideration.

The CDC recognizes that the 2017 Motion recommended potentially re-positioning the Manufacturing Fund as a "cleantech" fund, which could support the County's efforts around increased sustainability. Using a broad definition, cleantech includes manufacturing companies that produce, process or provide services aimed to reduce waste and require as few non-renewable resources as possible. The CDC concurs that the cleantech sector is a leading growth industry in the region and recommends a targeted focus to encourage the development of cleantech companies in the unincorporated areas of the County. However, the CDC would caution that such a narrow focus could significantly limit the pool of potential businesses in an already constrained target market. For example, according to preliminary research, there are approximately 5,924 manufacturers in the unincorporated areas of Los Angeles County.

If the CDC focused on solely cleantech businesses, the pool of potential businesses that would qualify for the Manufacturing Fund is reduced to 209 companies Countywide, with only 11 existing in the underserved target areas that are a priority for this fund.

Given the above, the CDC recommends a tiered approach for the Manufacturing Fund marketing effort with a primary emphasis on cleantech to support the County's efforts around energy efficiency and wastewater resilience, as well as providing career opportunities across a wide range of salary and education levels. The tiered approach will allow the CDC to continue ongoing discussions with prospective businesses already in the pipeline while allowing a targeted campaign around cleantech as the core tier.

In terms of next steps, the CDC, working in conjunction with Allegra, will:

- Leverage business databases and data mining systems to develop two contact lists: 1) one solely for cleantech companies within the County unincorporated areas, and 2) a secondary list of manufacturing companies in the County unincorporated areas.
- Direct mail to both contact lists and set up a process for "soft" contact with individual prospective businesses on these lists.
- Partner with organizations such as the Los Angeles Cleantech Cluster, Los Angeles Cleantech Incubator, and the Los Angeles Economic Development Corporation to continue to outreach to prospective cleantech businesses.

Working with Allegra, the CDC has already issued approximately 760 direct mailers to prospective businesses in the unincorporated areas of the County. This represents the first of four rounds of mailers the CDC anticipates issuing in FY 2017-18. Initial results are promising as the CDC has received between two and four calls per day from prospective borrowers seeking further information on the CDC's various loan programs. It is anticipated that this marketing campaign will yield a significant number of new loans in FY 2017-18.

In addition to the above efforts, the CDC will work with the Los Angeles County Chief Sustainability Office to further communicate with cleantech companies and discuss additional outreach strategies and mechanisms. Lastly, the CDC will continue its overall marketing and outreach efforts, in conjunction with the next steps referenced above, to build upon the current loan pipeline and "soft" contact interactions that have already been initiated with manufacturing companies in the unincorporated areas of Los Angeles County.

Catalytic Development Loan Fund

The Board approved the creation of a Catalytic Fund to promote infill and brownfield development along transit corridors in the unincorporated County. More specifically, the 2015 Motion stated the following:

> *The establishment and initial capitalization of a Catalytic Development Fund specifically targeted to unincorporated areas prioritized by the County such as transit-oriented development projects, historically or culturally significant, though currently blighted commercial corridors, or those in high unemployment areas or blighted areas, will incentivize investment for employment generating projects.*

In FY 2016-17, the CDC convened a working group of stakeholders (Working Group), comprised of subject-matter experts, to develop preliminary parameters for the Catalytic Fund. The Working Group met several times and their feedback assisted in further refining the definition of a "catalytic" project and in developing a draft Request for Statement of Qualifications (RFSQ).

The Working Group focused on key considerations for the Catalytic Fund including financial leverage, job generation, land assemblage and take out/exit strategy. In addition to collaborating with the Working Group, the CDC also considered and researched several leveraged funds as potential models for the Catalytic Fund. Those funds included, but were not limited to, the Transit Oriented Communities Loan Program being developed by Metro and the Los Angeles County Housing Innovation Fund (LACHIF) offered by the CDC.

Based on substantial discussions with the Working Group and a review of similar fund models, the CDC developed the RFSQ with the intent to solicit and evaluate qualified consultant teams tasked with creating the Catalytic Fund program and parameters. The selected consultant team(s) would then develop an implementation strategy that includes a development/redevelopment vision, financing model, timeline, funding mechanisms and systems for ongoing management.

The RFSQ was presented to the Economic Development Policy Committee (Policy Committee) on April 27, 2017, for feedback and comment. As a result of this meeting, and at the request of the Board Offices and the Policy Committee, the CDC convened an additional stakeholder meeting on July 31, 2017, to obtain input from regional Community Development Financial Institutions (CDFIs), and banking and investment professionals. Several themes emerged from that meeting, but the major takeaway was the County must first understand the loan demand and financing gaps before a Catalytic Fund can be created that is effectively leveraged, well-received by the marketplace, and truly catalyzes projects across the County.

Based on input from the most recent stakeholder meeting, the CDC will delay issuing the RFSQ to evaluate options such as an external "call for projects" model. As a result, the CDC will continue to work with the Working Group, Board Offices, local CDFIs and outside consultants, as necessary, to identify and achieve a better understanding of the options and determine solutions. It is expected that this work will be conducted over the next 30-60 days and will be led by the Deputy Executive Director of the CDC.

Industry Sector Strategies

The 2017 Motion directed the CEO to report back with a strategy to implement the grant program for industry sector strategies and cluster building efforts. As provided for in the 2015 Motion, this economic development initiative was originally designed to provide grants to economic development practitioners in amounts that would grow to a total of $2 million by FY 2021-22. The CEO has since re-structured this initiative as the Industry Sector Strategies program and will utilize the current funding allocation of $500,000 annually to support specific research studies around industries that are of strategic importance to the County's economic development priorities. These studies will not only seek to identify those sectors with high growth potential, but will also review potential career path opportunities for local and targeted workers within Los Angeles County. The objective will be to utilize this information to guide future economic development strategies and to develop one or more pilot programs related to workforce development initiatives. The CEO will work closely with the Policy Committee and its members to design and implement workforce development strategies that emerge from the Industry Sector Strategies program. The industries that have been selected for initial review and analysis include film, cleantech, construction, and leisure and hospitality. The CEO will utilize its Master Agreement for Economic Development Services to select consultants that might assist with this effort. To the extent that any of the $500,000 is not utilized within a given fiscal year, the unspent funds will be deposited into the General Fund and will not carryover within the Trust Fund.

Staffing Recommendations

The CEO does not currently recommend any additional staffing in support of economic development efforts managed by the County.

Conclusion

The CEO and CDC recognize the strategic importance of the economic development initiatives currently being implemented across the County. To ensure the responsible use of County funds in support of these efforts, the CEO and CDC will continually review the appropriateness of the funding recommendations and economic development initiatives described in this memorandum. If there are any changes to the proposed funding of the five economic development initiatives authorized by the 2015 Motion and 2017 Motion, the CEO will report back during future Recommendation Budget phases with a revised proposal for the Board to consider.

Please contact us if you have any questions, or your staff may contact Doug Baron of CEO at (213) 974-8355 or dbaron@ceo.lacounty.gov, or Monique King-Viehland of CDC at (626) 586-1553 or monique.king-viehland@lacdc.org.

SAH:JJ:DSB
RM:acn

c: Executive Office, Board of Supervisors
County Counsel
Economic Development Policy Committee