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Economy & Efficiency Commission Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

PRESENTATION BY
Lee Harrington, President & CEO
Greg Whitney, Vice-President, Business Development
Los Angeles County Economic Development Corporation (LAEDC)
Topic: Best Practices for Economic
January 4, 2001

Chairman Philibosian introduced Mr. Lee Harrington, President and CEO of the Los Angeles County Economic Development Corporation (LAEDC) and Mr. Greg Whitney, Vice-President, Business Development. Chairman Philibosian asked the Economy and Efficiency Commission's Executive Director, Mr. Staniforth, to introduce Mr. Harrington. Mr. Staniforth stated that Mr. Harrington has been the President of the LAEDC for the past six years and prior to that he was the Senior Executive Vice President of Southern California Gas. He is a University of Southern California and University of California Santa Barbara graduate. Mr. Harrington introduced Mr. Greg Whitney as LAEDC's Vice-President of Business Development.

Mr. Harrington emphasized that the mission of LAEDC in conjunction with Los Angeles County, is one of cooperation in developing revenue. Mr. Harrington explained that the corporation was formed about 20 years ago with the help of Los Angeles County. The early LAEDC meetings were conducted at the county, in which the Board of Supervisors and the Chief Administrative Officer were often involved. LAEDC was originally formed to provide financing to stimulate economic and industrial growth within the county. LAEDC has moved from that role, to focus on business development, job creation, and economic information for the public and private sectors of business. LAEDC is involved in public policy issues and analytical work with special emphasis on transportation. Mr. Harrington stated that the ultimate measure of new growth in the county is the "creation of new jobs". In order to achieve this goal LAEDC needs to convince businesses to operate within the county's boundaries. LAEDC works very closely with existing companies who are in an expansion mode, with companies who are coming into the area and with companies who are thinking about leaving the area. LAEDC has a cadre of 450 business service providers for new business contacts that can be "brought to the table". LAEDC focuses on site location, on permitting, on financing, on connecting businesses with community colleges for development of training programs and on international trade. Mr. Harrington stated that LAEDC has recently entered into an agreement to become the parent organization of the World Trade Center Association (WTCA) of Los Angeles and Long Beach. The WTCA will remain a corporation; it will become a subsidiary of the LAEDC. Mr. Harrington mentioned that he has been running the World Trade Center Association since the beginning of 2001, and this expansion gives the LAEDC a fuller service operation for Los Angeles County and for Southern California.

Mr. Harrington stated that there are seven regions that are provided county support through managers in regional economic organizations. These managers work one on one with businesses. There are 150 open projects per year, involving 40-50,000 direct jobs. On average LAEDC closes about 40 projects per year, creating about 14,000 direct jobs. An average job in Los Angeles county is worth about \$35,000. That job annually generate about \$4,000 in revenue that goes to the State of California and then returns to the County of Los Angeles from two forms: one is the state income tax and the other is sales tax and therefore are revenue dependent on people with jobs.

Mr. Harrington asked Greg Whitney to present information on business relocation. He commented that there are many states, regions and other countries prospecting for businesses for their economies. Other agencies are watch Los Angeles County to relocate the best paying jobs, and fastest growing businesses. About 70% of the LAEDC projects, today, are manufacturing which seems to be where the most permitting is needed. About 60-70% of potential jobs are attracted, as compared to six or seven years ago when the jobs efforts were in retention. Mr. Harrington stated that this was good news, however LAEDC still works the retention area, as well as the expansion area.

Mr. Harrington turned the presentation over to Greg Whitney, who has been with LAEDC for two years. He has had 25 years of professional experience presiding over the Kern County Economic Development Corporation, as President and having worked in the Denver and Detroit areas.

Mr. Whitney stated that in preparation for his comments, he noted that Area Development magazine issued their annual survey of business decision-makers relating to location factors. (This survey has been in process for ten years, and the respondents included 200 companies distributed within the various industries 16% of which are fabricating metal products, and the largest group of over 50% are manufacturing, warehouse distribution and business services.) Commissioner Padilla asked if this were a random sampling from Los Angeles County? Mr. Whitney responded that it was a national survey of business decision-makers and approximately 50% of these have traditionally been California based companies. One reason for a decreasing number of facilities in Los Angeles County is that existing facilities are consolidating; businesses with multiple facilities are going into a single more efficient facility. The second reason for the decrease was the necessity of lowering operating and labor costs. The third was outdated facilities in the Los Angeles industrial marketplace.

Mr. Whitney stated that the publication lists and monitors on an annual basis about 25 locational criteria, the primary of which was highway accessibility. Los Angeles has highway accessibility, but the question is distance versus time. Labor cost was the second issue, and availability of skilled labor was third. The corporate tax rate in California is considered to be high. Eighty three per cent of the companies are interested in local incentives; (L.A. County and the State of California are not in favor of this issue). The sixth issue was occupancy and construction costs. Seventh, were tax exemptions. Eighth, state and county environmental regulations were considered to be excessive. Other issues were listed, such as: telecommunication services; nineteenth was the availability of broadband telecom services (58% of the companies were concerned with this, whereas last year it wasn't an issue.) Quality of life was 25th on the list, which included the number one factor - crime. (Wages and safety were the top priority of persons relocating.)

Mr. Whitney stated that companies responded to a number of questions, such as the location of the new domestic facilities in the West and Southwestern regions of the United States: 24% responded by saying that they would be relocating to Arizona, New Mexico, Oklahoma, Texas, California, Nevada, Oregon or Washington. (These are L.A. County's relocation competition.) The types of facilities that new businesses intend to open are: 52% manufacturing, 4% call centers, 4% research and development, 11% business services, 23% warehouses, and 5% headquarters. Manufacturing and warehousing represent about 75% of the opportunity within the 200 companies that responded to the survey.

Mr. Whitney stated that what is key to 80% of the above mentioned clients is the "feasibility" of constructing facilities in Southern California "on time". LAEDC's concern is the ability to keep business relocating within the boundaries of Los Angeles County. Outside professional and site selection consultants

(incentive negotiators) are being used to represent the companies in seeking their sites. It is difficult for Los Angeles County to set the fee structure in comparison to the other states because the list of fees is longer. Last year there were over 5, one million square foot, international trade related, big box warehouse distribution facilities relocating. The closest location was the Inland Empire or the Central Valley. Mr. Whitney said the majority of cities do not want this kind of business, because of the truck traffic implications, large land use, lower wages and very few campus environments (Silicon Valley, is high tech, has big campuses and low-rise facilities.) Industrial reuse is a "big issue".

Commissioner Stoke stated that these one million square foot facilities would receive the impact of transportation to the ports regardless of their existence. Mr. Whitney responded that the transportation problems would double. (With the facilities there would be a two-direction flow, instead of one.) Commissioner Stoke asked how should the county compensate or justify the build up in the Inland area and provide public services for which LAEDC receives no compensation? Mr. Harrington stated that land use is something the LAEDC has been involved in for the past two years from a public policy standpoint. LAEDC has watched the "ramp up" of the economy, and the demand for industrial space over the last few years. It has started worrying that industrial space was decreasing; i.e. the housing for high value manufacturing jobs, which are an important middle wage component in our economy. The market has been extremely "hot" for wholesale activities and warehousing. Much of the industrial space has shifted from manufacturing to warehousing. Three warehouses being built within Los Angeles County are six million square feet. Wholesale trading is different than warehousing because there is value added activity. There are a quarter of a million jobs that pay over \$15.00 per hour in Los Angeles County in wholesale trade.

Part of the answer lies in the LAX master plan. LAEDC is recognizing the need to regionalize airport operations. Some of the cargo related operations would probably move beyond LAX so that double hauling does not occur through Los Angeles County. The Critical Infrastructure Council would support a regionalized plan in landing more of the cargo on the East Side of the Southern California area, so that transit is not delayed around the region. Movement of cargo versus movement of people is the conflicting issue. Sixty percent of the merchandise comes into our economy via the 710 freeway where additional manufacturing, repackaging or distribution are taking place. In two years the 710 freeway is going to hit about 13 miles per hour. There are also issues concerning the Inland or high value been shifted from are six million activity. There are also issues concerning the Inland Empire's rapid growth in both manufacturing and warehousing. They have captured more new manufacturing because Los Angeles County has too many old facilities, which need redevelopment. The question is "how to get the cities and the county to tackle the potential for industrial redevelopment."

Commissioner Fuhrman asked about the completion of the 710-freeway gap. Mr. Harrington responded that the new focus is on reinforcing the lower end of the arterial access to the 710. Commissioner Fuhrman asked whether that makes sense from this perspective of cargo distribution and goods. Mr. Harrington said that the region needed the extension. Commissioner Crowley stated that there had been an assurance that there would be no truck traffic on that link. Mr. Harrington agreed. He reiterated that industrial reuse strategies are key to the economy because there are highway manufacturing operations that are interested in this area both as a market and logistical center. But very few properties are available to offer business. Over 70% of industrial space are over 30 years old, and are "obsolete" for new manufacturing use. The ability to stimulate, support through permitting, and then reuse older industrial areas is very important. Manufacturing jobs bridge that middle class opportunity for the people in Los Angeles County and Southern California. There is a continuous need for capital improvement in the market place to attract "high value" companies. With the exception of Orange County, Los Angeles County is land poor. The need is "reuse" not "new use". Companies are taken to the Antelope Valley to show them that alternative. Some are interested, but others want to be closer to the market place.

Government agencies in the rest of the country, as well as in Southern California are getting much more aggressive about the permitting aspects of these projects because they realize that time is money. In the last five years other metropolitan areas of the United States have delivered three times as much new industrial space as Southern California. To support the job base, they have done a lot of progressive things to stimulate the permitting process, as well as the redevelopment/new development process. Commissioner Fuhrman said

that federal legislation affects their ability to accomplish these aggressive tasks, are there state and local regulations that are also impinging the community's ability to do those sorts of aggressive tasks. Mr. Harrington answered that the problem is that since regulations are the same, compliance and ability to comply are different. From an air quality standpoint we have much more stringent compliance requirements than most of the country. We are starting to run into water quality issues. Facilitation really makes a difference and county agencies could help.

Mr. Harrington asked, "What are some of those 'best practice models' that we see out there"? Many of them are in the local area. The County of Los Angeles has become one of the slowest agencies in the permitting process. Commissioner Stoke said that the City of Los Angeles used to have the City Interdepartmental Cooperation Organization (CICED), which was a good program. Does the County of Los Angeles have anything like that? Mr. Harrington responded that the City of Los Angeles has moved forward dramatically relative to the County of Los Angeles. The creation of the mayor's business team has helped facilitate projects on a "one by one basis". The city has done a number of things to improve their support of business locations. Mr. Harrington gave an example: the City of Los Angeles now has their own building inspection staff, people who are qualified to do UL Certification of electrical equipment in the field, at a price much less than an outside contractor. (Vernon actually offers the UL Certification as a free service, which is an example of what other cities are doing to improve that process). There is a lot of cost when you move an operation and bring in equipment that hasn't been UL Certified on site.

Mr. Harrington stated that he wanted Mr. Whitney to go through some of the steps that the Los Angeles County can follow to improve their competitive position. Mr. Whitney continued by stating that what users and developers are looking for is "existing" space. The attitude towards developers in many government departments is not very positive. Developers are perceived as a "breed" uninterested in the civic side of things, but for Los Angeles County they are critical because they are the deliverers of our employment sites. The Japanese companies' trends of investments have shifted to the Southeast (Georgia and other states) very dramatically because of timely and consistent interpretations in the processing of projects.

Commissioner Stoke commented that one of the most important industries is entertainment, and it has been noted that they are leaving California for Florida, Arizona, and Canada. Has the fact that they don't get a tax break been addressed? Mr. Whitney answered that there have been some actions at the state level that has made it a little better. Los Angeles does continue to dominate on the Post Production end of the shooting, based on tax advantages. Mr. Harrington interjected that those advantages are at the national levels, and at the province levels in Canada. Unless Los Angeles responds in kind, the cost factor can make a thirty-percent difference in a production. It is a state tax issue. We have been able to exempt the production side of the business from the eight-hour overtime rule.

Commissioner Farrar asked how LAEDC was addressing the issue of 80 separate cities? Mr. Whitney responded that there are six people in six regions that are managing as few as three, or as many as thirty cities. LAEDC serves as project manager and makes introductions to the various departments. Regions were established to show the investors that they were segmented and easy to handle. Commissioner Padilla asked if Mr. Whitney could expand on the unincorporated versus incorporated city; for example, if a manufacturer goes to an unincorporated area versus a city, is there an overlap where a business would have to get permitted with L.A. County and the city of their choice? Are there different sets of permits for different cities even though the business is the same? Mr. Whitney stated that the communities' differ and they want different kinds of business and have different attitudes. Commissioner Padilla asked whether there was a consolidated listing by industry of what you would have to deal with to start a business. Mr. Whitney answered that LAEDC tries to get the cities to "narrow down" their requirements, whether it is a facility requirements, labor force requirement, or a supplier base requirement. There are a number of factors that point the business toward a logical location until the business has a preferred site and a backup site, this also provided negotiation leverage. Mr. Harrington stated that the thing to understand about the approach is that business is a customer (not the city), the city is a partner. LAEDC works with the business to find the need, and then as they define the need, they start identifying which locations make the most sense. If a regional manager in the San Gabriel Valley knows that city "A" is a lot easier to work with than city "B", he will naturally head in that direction to "close the deal". The Cosmont Report looks at both tax information, and

rates individual cities on the permitting processes.

Mr. Harrington stated that the city of El Segundo is at the top of the permitting distribution list because of its scheduling policy. If the business keeps to the schedule, El Segundo will guarantee the permit as of a date certain. This practice emphasizes the need for other regions to keep pace with El Segundo's activity of permitting and development.

Mr. Whitney stated that predevelopment meetings, combined with parallel (rather than linear) processing among departments, eliminates time wastage, creates good will and success. Many industries have sent their employees to customer service training, have surveyed the attitudes of their clients, have had employee performance reviews, given training on the importance of business/jobs to the economic health of the county, and have "one-stop" permitting (where questions can be answered in one area.) LAEDC operates the "one-stop" center for the regional business assistance network with 450 business service providers; and has an 800 number, which identifies particular issues in a particular geographic location. (Mr. Harrington remarked that LAEDC publishes a Business Resource Guide.) Mr. Whitney stated that there are businesses that have online handbooks and online tracking of projects to aid a developer/employer. The developer can go on line and call up a project number to find the status of their project, rather than disturb the work of the checkers. There are also "24/7" inspections on high speed projects. Mr. Harrington concluded by giving an example of a "growing" Torrance aerospace company which wanted to acquire forges and other equipment already located in Los Angeles County at other sites. The aerospace company asked LAEDC to help with the UL recertification. This was in Carson, which is a county contract city. If this aerospace company had gone to the City of Los Angeles or the City of Vernon, they would have received UL Certification from the inspectors on the site. In the City of Los Angeles the fee would have been half of a contract vendor's fee. The City of Vernon, which is the most aggressive city in Los Angeles County, provides this service, for free.

Commissioner Thompson mentioned that \$35,000 in wages brings in about \$4,000 in taxes, but has a study ever been done regarding a cost/benefit analysis, on the impact of health care, or transportation? Mr. Harrington responded that the employee is somebody who is already here. With the Los Angeles economy, LAEDC has been able to take a lot of people who were service dependent families and get them into employment. It is a move up strategy, so rather than bringing in an employee who becomes a service dependent problem, we are helping an already existing resident get off of service dependency. Commissioner Thompson stated that sometimes a region might not want industrial development. Mr. Whitney said that retail hasn't been addressed, which is a big issue from a revenue standpoint, the municipality is more interested in sales tax collections than they are in employees. Mr. Harrington said they did do a study, which compared a reapplication of a site to either industrial or retail use. A city or county wanted the retail for tax revenue, even though the job benefits in the broader economic scheme were much more beneficial on the industrial side. (There is a difference between an "industrial" industry that pays an average wage of \$15.00 an hour plus benefits, or a "retail" industry that pays \$6 - \$8.00 per hour without benefits on the same parcel of land.) The answer to the question is on a "city by city" basis. Mr. Harrington reiterated that the opportunity at hand is "reuse". LAEDC is an advocate of creating higher value manufacturing jobs as part of the process and moving people out of the dependency mode.

Vice Chair Luente asked since transportation infrastructure was a high priority, is LAEDC working with Southern California Association of Governments (SCAG) or the Metropolitan Transportation Authority (MTA). Mr. Harrington responded by saying that when the first LAX master plan was rolled out, the business community was asked to support the plan, and couldn't understand why there was so much regional turmoil. The Critical Infrastructure Council was formed, with about 80 private sector people, many of whom are transportation experts. They are developing analysis for the business community to engage in the planning aspect at SCAG and other areas, as opposed to waiting until the process is completed. The 240-mile per hour Magnetic Levitation (MAGLEV) Program is an example, the high speed train doesn't meet the criteria that a 80 mile per hour train does, and LAEDC is meeting with SCAG in the planning process before MAGLEV is a "done deal". LAEDC has brought in an analyst who has expertise in this area. LAEDC is about to hire a Director of Public Policy, who will also be an endowed professor of Economic Development. LAEDC's vision is not that it becomes the "advocate", but that it becomes the "advisory". LAEDC will help analyze the policy options.

Commissioner Stoke asked about what the county should do with the present utilities' problem? Mr. Harrington said that he was delivering a "white paper" to the Governor and to the Head of the Senate. There were no short-term solutions. The entrance into a phase of deregulation when there is a shortage of generation, has caused the utilities company on "peak days" to look to the private sector for gas to run the generators, that is ten times higher priced than what the rest of the industrial market pays. The solution is to build generating plants, and the private sector is better at that than the public sector. New conservation measures is another solution. Utilities need to get back into the generation business at least on a distribution, small applications basis within their systems, because they are best at working with cities on permits, and understanding where the reinforcement points are within their systems. More generation is a two to three year process. Mr. Harrington stated that he managed deregulation with the Gas Company. They were proponents a move it forward in time when there was surplus gas around. For five years Los Angeles had the lowest gas prices ever on a real cost basis. Commissioner Fuhrman asked if Mr. Harrington could send Mr. Staniforth the "white papers". Mr. Harrington said that the "white papers" would be available this week.

Commissioner Petak stated that what is being promoted by the LAEDC is that business is the customer, but what is being taught in the policy schools, are business constraints which are in the public interest. Commissioner Crowley stated that as Commissioner of the Burbank Airport Commission, there is an area north of the mountain where there is space both for an airport and industrial use, this would be an alternative to MAGLEV, which is very costly. Mr. Harrington said that the challenge is the regional one, communities do not want the site in their backyards. He asked the Mayor of Riverside whether the form March Air Force Base could be turned into what El Toro could have been, and service both San Diego and Orange County. The mayor said he didn't think the neighborhood would agree to a passenger airport at March, but they would support a cargo airport. The challenge on the North County for an airfield is that there is not enough population to support an active passenger airport. Commissioner Crowley said it was a multi county problem, and asked if Mr. Harrington were working with SCAG? Mr. Harrington stated that they were just beginning to get into the issue. LAEDC thinks that El Toro was the correct solution, but it may not happen for the next twenty years, so other options are needed. March, Norton, and Palmdale are part of the solution.

Commissioner Sylva commended Mr. Harrington for a job well done, and stated that she was addressing many substantive economic decisions for the county. As chair of the Policy Task Force, which is considering economic policy for the Los Angeles County, she asked whether Mr. Harrington had any specific ideas with which the task force could work? Mr. Harrington stated he would like to talk more about the Charter. Chairman Philibosian state the most practical way to do this was to have a policy Task Force meeting, and talk more specifically about the Los Angeles County operations approach, the regulatory approach, the El Segundo Model (where they have an actual business approach), the Red Teams approach (which started in the Wilson Administration under the Department of Trade and Commerce). In this type of meeting all of the operative regulators would be in the room at the same time. It is recommended that "models" be used in order not to "reinvent the wheel". Chairman Philibosian would appreciate a noticed joint meeting, subject to the approval the joint chairs of the Policy Task Force and the Organization and Accountability Task Forces. Mr. Harrington concurred. Chairman Philibosian thanked both Mr. Harrington and Mr. Whitney for their presentations.

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