

ADVANCING ECONOMIC DEVELOPMENT STRATEGIES IN LOS ANGELES COUNTY



August 14, 2018

**CITIZENS'
ECONOMY
&
EFFICIENCY
COMMISSION**
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Ed Eng

ADMINISTRATIVE ASSISTANT

Aisha Pittmon

The mission of the Commission is to examine any function of County government at the request of the Board of Supervisors, on its own initiative, or as suggested by others, and to submit recommendations to the Board that will improve local government economy, efficiency, and effectiveness.

**CITIZENS'
ECONOMY
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COMMISSION**
LOS ANGELES COUNTY
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August 14, 2018

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Supervisor, Third District
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Dear Chairperson Kuehl:

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On September 26, 2017, on a motion by Supervisor Barger, the Board of Supervisors requested the Citizens' Economy and Efficiency Commission (Commission) to "...work with relevant stakeholders and report back with recommendations on how to strengthen business retention and expansion efforts in Los Angeles County".

In response to the Board's request, the Commission has gathered and analyzed primary and secondary data from a wide range of resources and stakeholders over the course of eight months.

The report entitled, *Advancing Economic Development Strategies in Los Angeles County*, has been completed and attached for your consideration. During the our review, the Commission found that there have been previous reports prepared by County staff and outside consultants that address some of the same issues raised in our report and found that much progress has been made toward implementing the County's economic development goals.

Executive Director

Edward Eng

To ensure continued progress, the Commission is submitting additional findings and recommendations enclosed in our report for the Board's review.

Admin Assistant

Aisha Pittmon

The Commission would like to acknowledge the cooperation and candid feedback of County departments. We also appreciate the opportunity to present this report to your Board and stand ready to assist your Board in the implementation of these recommendations. As with the practice of our Commission, we will update the Board in approximately one year with a status of the report's adopted recommendations.

With Warmest Regards,

A handwritten signature in black ink that reads "Becca Doten". The signature is written in a cursive style with a long horizontal line extending to the right from the end of the name.

Becca Doten
Chairwoman

C: Each Member of the Board
Chiefs of Staff, Board Offices
Sachi Hamai, CEO
Jim Jones, Chief Deputy CEO
Celia Zavala, Acting Executive Officer, Board of Supervisors
Department Heads
Each Economy and Efficiency Commissioner

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I. EXECUTIVE SUMMARY

Driven by the complexity of technological advances, sector convergence, and globalization, the Board of Supervisors (Board) has adopted a series of motions to ensure that Los Angeles County (County) is prepared to meet the challenges of the 21st century. Economic development was hallmarked as a critical element to the 2016-2020 Strategic Plan. In response to the Board's agenda, the Chief Executive Officer (CEO), in conjunction with the Community Development Commission (CDC), developed multiple strategies to address the growing economic development needs as identified in the Los Angeles Economic Development Corporation (LAEDC) 2016-2020 report.

Additionally, BizFed, a business alliance that represents 160 diverse business organizations and 325,000 employers, has identified key concerns from business owners in its 2017 jobs outlook survey. The survey delved deeply into the investment priorities conveyed by these employers, as well as their attitudes toward doing business in the County. Given these considerations and concerns from businesses, the Board in September 2017 directed the Economy and Efficiency Commission (Commission) to study additional ways to help the County retain and attract businesses. After internal assessment and discussions regarding the optimal approach, the Commission opted to review what the County and others have already done, and interviewed a diverse list of stakeholders for their perspectives on the strengths and weaknesses in doing business with the County. The Commission then analyzed the findings and made recommendations to improve what County departments are doing currently, and developed alternative strategies for future implementation.

The Commission used a grounded theory approach as a framework deemed most suitable for this type of study. Data was collected from literature as well as from interviews with large businesses and trade/employer associations. The Commission's findings were categorized into emerging themes, and the three categories of recommendations below were developed and chosen from a list of options the Commission felt the County can build on to advance economic development strategies already in place:

1. *Grow the Biosciences Sector.* The Commission recommends (a) investment in the startup phases of companies in this sector through a privately managed bioscience fund; (b) collaboration with local universities and colleges to build a talent pool for this growing sector; (c) studying successful entrepreneurship communities and replicate patterns to spur growth across the County; and (d) creating “think tanks” made up of private-public sector leaders to help solve problems related to growth sectors.
2. *Integrate Internal Systems and Add Smart Technology.* The Commission recommends integrating the EPIC-LA, Small Business Concierge Service, Vendor-Self-Service System, and Small Business Registration/Certification processes under a single platform as well as building in machine learning algorithms to better respond to business needs.
3. *Develop a Robust Pipeline of Skilled Workers.* The Commission recommends that the County invest in a regional training system that unites universities and employers to develop a skilled tech workforce that can respond nimbly to innovations in growth industries. Growing this pipeline of skilled tech employees will be essential to the future.
4. *Use Technology-Enabled Services to Improve the Land Entitlement Process.* The Commission recommends (a) developing a Business Concierge Service, similar to the one-stop small business concierge service, to help large businesses; and (b) building a centralized database system of all fee schedules, with capabilities that would allow customers to estimate the costs of services, view accounts, and pay online.

II. INTRODUCTION

The outlook for the Los Angeles County economy is strong as measured by historically low unemployment rates, rising personal incomes, and positive job growth across all industry sectors¹. In response to the goals of the 2016-2020 Los Angeles County Strategic Plan for Economic Development, the Board of Supervisors directed the CEO to develop economic policies and initiatives to support businesses through a series of Board motions.

Through a collaborative effort of multiple County departments, the CEO's office developed multiple strategies to address the needs of businesses and invest in emerging sectors:

- Invest in human capital through creating workforce and small business programs;
- Invest in high-growth industries through diverting assets to high-growth sectors, beginning with Biosciences; and
- Invest in durable goods purchases through access to County capital and contracts

The 2017 Biz Fed's Los Angeles County Jobs Outlook survey queried executives on factors related to the current business outlook, and the top three outcomes are listed below:

1. 74% indicated investment in human capital as their top initiative;
2. 63% indicated investment in automation/technology as a close second; and
3. 58% indicated investment in the purchase of durable goods as their third highest priority.

III. SCOPE OF WORK

Given the interests in the Biz Fed survey and the CEO's economic strategies, the Board in its motion on September 26, 2017, directed the Commission to recommend ways to help the County retain, expand, and attract businesses. In response to the Board's directive, the Commission's Chair assembled a Task Force represented by Commissioners from each Supervisorial District, along with the Commission's Executive Director, to perform the study.

¹ LAEDC 2-10-2019 Economic Forecast & Industry Outlook. <https://laedc.org/wp-content/uploads/2018/02/LAEDC-2018-19-Economic-Forecast.pdf>

After much deliberation and clarification on the motion, the Task Force narrowed the scope to acquiring first-hand insights about processes for location decisions and expansion from key decision makers of large companies and associations. Although the lack of affordable housing was a key theme raised during the information gathering process, the Task Force chose not to address this issue in our report since it was already a critical component in the County's 2016-2021 Strategic Plan². Using collected data, the Task Force's goal was to identify knowledge gaps in County strategies and recommend solutions to complement work that the County has already performed. Purposefully, this approach refrains from judging or discrediting the quality of the work already implemented by County departments or business organizations.

The Task Force and the Commission's Executive Director and staff conducted the entire study in-house.

IV. METHODOLOGY

Framework

The grounded theory³ approach was deemed suitable for this study because the process is best used for data coding procedures to create new meanings, uncover gaps, or advance theoretical models. The Task Force intended to provide recommendations from findings informed by knowledge gained from current industry leaders.

Based on the selection of the grounded theory approach, the design framework used for participant selection, data collection, and data analysis was developed to address the following research questions:

1. What are the strategic issues or factors affecting your decisions to stay, expand or relocate? How are location and site selection decisions made?

² County of Los Angeles 2016-2021 Strategic Plan: <https://www.lacounty.gov/wp-content/uploads/2016-2021-County-Strategic-Plan-Final.pdf>

³ Grounded theory is an inductive methodology used in qualitative research to generate themes leading to the emergence of conceptual theories.

2. What has changed in your industry over time? Are there key trends in the Political, Economical/Social, Technological, Legal, or Environmental areas that are influencing your location, expansion, and site selection decisions?
3. What are your current and future needs?
4. What are the barriers (including policies/environmental factors) to doing business in Los Angeles County? How can Los Angeles County overcome those perceived barriers?
5. How can Los Angeles County promote a more favorable perception of its advantages among corporate decision makers (strengths and weaknesses)?
6. What are the internal and external factors for companies that have moved (depending on the size and type of business)? What can or can't Los Angeles County control?

The Task Force designed the questions to generate the best responses and insights on how companies make investment decisions as well as their views on the role that the County can or should play in location decisions.

Data Collection

Participant Selection

The criteria for the initial sampling was based on the participants' titles, functions, and access to their companies' chief executive officers (CEOs), and in some cases, the CEOs themselves. An initial list of 30 names that fit this description was compiled from personal relationships across several broad public/private business organizations and trade associations. Internal County departments were also identified and contacted.

Prior to the interviews, the Task Force scoured through journals, periodicals and economic reports for best practices and identifying what has and has not proven successful, while being cognizant of the fact that these outcomes may or may not apply to the size, scope, and complexity of Los Angeles County.

Interview

The Task Force chose a semi-structured interview protocol as the form of data collection to allow for follow-up questions, gain a more in-depth understanding of business challenges, and develop practical and useful recommendations for the study.

During the interviews, the transparency of the data collection process, the framework, and the data analysis procedures were fully disclosed to the participants as related to the research study. The Task Force also received a dozen reports and some surveys pertaining to business owners both large and small in the County of Los Angeles.

Ethical considerations

Due to conducting research of a sensitive nature, it is important to protect the identity of participants and other valuable sources from potential harm. Therefore, all participants are anonymous and protected. This will avoid disclosing information that would harm participants in their personal and professional lives.

To protect the rights and safety of interviewees, all the interviewees were informed that participation is voluntary, and participants had the right to withdraw from the process at any time. Moreover, the Task Force told all participants the purpose of the study and promised confidentiality of their identities in the report.

Data Analysis

The goal of this step is to assemble data and identify possible patterns that emerge from the data collection process. The Task Force was given a copy of all public reports as well as transcripts from each interview. At the end of the reading and sharing of interview notes, the Commissioners worked together to summarize all their findings. The Task Force evaluated and discussed all data from reports and interview responses, establishing emerging themes that were explored further. The Task Force analyzed and debated the meaningful themes and categories that emerged. Where clarifications were needed, the Task Force went back to the interviewees

for additional explanation. This led to the final step of developing recommendations from the findings.

Validity

The threats to the trustworthiness of the study lie in the possible human biases that may occur in the analysis of the data and construction of the theoretical framework. The Task Force recognized the potential of bias in performing this type of study and encouraged the unabashed scrutiny of non-substantive evidence and opinions.

V. FINDINGS AND RECOMMENDATIONS

A. BIOSCIENCE

1. The CEO's office created a Bioscience Revolving Loan Fund to nurture and grow the bioscience industry which it identified as an emergent sector that can potentially provide high-wage jobs covering a broad range of businesses.

The biosciences sector in Los Angeles County is a diverse group of companies involved in developing new treatments, therapies, and processes. Although this sector is still in a growth stage, it already has the largest employment impact in Los Angeles County and over any other counties in the state⁴. Furthermore, the companies within this sector are evenly dispersed throughout the five supervisorial districts. This emerging growth industry was identified by LAEDC as one of the six growth sectors with the highest potential to spur job creation and economic activity. Because a higher-skilled workforce will result in higher paying jobs, the additional wage from this fledgling sector will lead to greater overall economic impact via the economic multiplier effect theory.

A keen understanding of this sector's economic potential in the last decade has led to increased competition for the establishment of these companies by different states and counties. Several government entities have implemented public policy and launched programs to encourage the

⁴ Bioscience Economic Development. https://www.bio.org/sites/default/files/State-Leg-Best-Practices_0.pdf

growth of bioscience companies within their own jurisdictions. These programs include tax credits to encourage private investors directly in early-stage companies, or funds that make early stage investments⁵.

In response to this economic opportunity, the CEO has aptly launched a Bioscience Revolving Loan Fund with initial funding of \$1 million for 2016-17, with plans to increase incrementally the loan funding to \$4 million by 2021-22, through a scaffolding approach.

However, like any startup company, the traditional commercialization timeline to bring an idea to market is lengthy and typically involves four stages: (1) testing the viability of concept; (2) developing a product prototype; (3) performing clinical trials regarding effectiveness and safety; and (4) manufacturing and commercialization.

Therefore, to cultivate and retain the bioscience industry in Los Angeles County, a diverse program of targeted investments and funding sources is needed to support the different stages of startups in this sector.

Recommendation 1. That the Board consider directing the CEO and Community Development Commission to establish an investment fund that specifically focuses on the early stages of startups through equity investments in a privately managed bioscience fund.

Many startup companies at the emerging stage do not have the collateral necessary to qualify for a loan program. Traditional sources of financing such as loans are more readily available for companies in mature stages.

County-owned hospitals can be used as a pilot program for this type of equity funding program. For example, County-owned hospitals can provide the space for start-ups and allocate administrative resources to support these fledgling ventures. This model can be replicated for other identified growth sectors as well.

⁵ Ibid

2. In an effort to advance the Bioscience sector, the CEO and Community Development Commission have identified various County land and other assets that can be leveraged to serve as the hub for emerging bioscience firms considering locating within the County.

To implement the recommendations of the 2014 Battelle report⁶, Los Angeles County has expressed a clear interest in developing a bioscience hub in its jurisdiction. The County plans to identify County land and other assets that can be leveraged to serve bioscience firms. To realize this vision, the County has begun identifying County assets to serve this purpose through a committee of diverse departments.

Recommendation 2a. That the Board consider directing the CEO, Community Development, and Department of Human Resources to work jointly with surrounding universities to develop a pipeline of skilled labor for the bioscience sector.

An industry cannot grow without a skilled and active workforce. To take advantage of the County's competitive advantage in education, the County must work in unison with adjoining universities to stress the importance of existing bioscience programs by sponsoring competitions, creating student and faculty-lead think tanks, and developing grants for start-up ideas, all of which ultimately contribute to building up an active workforce.

Recommendation 2b. That the Board consider directing the CEO and Community Development Commission to conduct research and analyze the pattern of successful entrepreneurship communities across the country and the role that government played in supporting such growth, and develop a framework to replicate this growth in Los Angeles County.

While implementing the Battelle Plan recommendations to entice existing bioscience firms through land opportunities and the creation of a loan fund, the County needs also to study how other geographical locations became synonymous with their specific niche, such as Silicon Valley, which famously refers to the technology-inhabited Bay Area. Not only did the Bay Area

⁶ 2014 Battelle report: <https://www.bio.org/sites/default/files/files/Battelle-BIO-2014-Industry.pdf>

allocate land and resources to this sector, but it also attracted the leaders and visionaries behind many companies due to the availability of skilled workers locally, specifically university graduates. Both Stanford and UC Berkeley have world-renowned engineering and computer science departments, which drive students to work at these high growth technology companies or start companies of their own.

Recommendation 2c. That the Board consider directing the Director of Human Resources to create private-public “think tanks” or strategy boards made up of high-level leadership from these companies to help the County solve problems related to growth sectors.

To invest in entrepreneurial startups and to build large scalable sectors in Los Angeles County require a different mindset, and a keen understanding of the attitudes, characteristics, and preferences of these companies. The County should promote and support nascent private sector initiatives when appropriate.

B. INTEGRATION

3. Los Angeles County recently launched several innovative services: the EPIC-LA website-a web portal for online permitting and inspections, a one-stop center such as the small business concierge service, and a vendor self-service portal to help potential business owners navigate through the myriad steps in starting a business.

Technological advances and convergence of markets have changed the way businesses operate. An important focus from the BizFed data was the investment in automation and technology. This means that companies doing business in Los Angeles County will be heavily investing in technological systems to grow revenue or achieve efficiencies. To meet the changing and growing needs of its business customers, Los Angeles County has responded by initiating several innovative programs targeted at enhancing service delivery.

The Department of Regional Planning has introduced a new web portal that would allow companies to initiate land-use projects, remit fees online, request services, and access

information through a computer or mobile device with internet connection. All application and permitting processes are now available online to businesses in Los Angeles County. This is a pilot program and data is being collected and analyzed for service improvement.

The Department of Consumer and Business Affairs recently launched a small business concierge service, a one-stop shop created to help businesses navigate the process of starting a business including identifying funding and getting the right permits. In concert with the business counseling services, the County also began certifying small business owners. This targeted group receives priorities and preferences when applying for county contracts.

The Internal Services Department has their own online system to encourage and assist vendors registering and doing business in Los Angeles County. This website does cross-reference applications from the Department of Consumer and Business Affairs on the registration process.

The Treasurer and Tax Collector has developed a framework for implementation of a Business Registration Program utilizing EPIC-LA to enhance services to customers and improve communication with internal departments.

These are all innovative services that address problems resulting in both businesses and jobs leaving Los Angeles County. However, the systems appear to be disjointed and do not leverage the potential synergies for a more comprehensive solution.

Recommendation 3. That the Board consider directing the CIO to work jointly with the Departments of Consumer and Business Affairs, Regional Planning, Internal Services, and the Treasurer and Tax Collector to integrate the four systems and develop additional capabilities for end-users using machine learning technologies.

The EPIC-LA website can be expanded with artificial intelligence (AI) and machine learning algorithms to enhance service to Los Angeles County small businesses. In addition to being able to search for permits, plans, and inspections associated with permits through an online portal, implementation of an AI system will help the EPIC-LA website provide better access to tracking

for business needs. Such an operating system could automate the concierge service by providing beginning-to-end steps on opening small businesses of various types, and most importantly, gather important data for the County to analyze. These data range from the most common types of procurement problems to the specific steps in starting a business that entrepreneurs commonly require assistance overcoming. Machine learning algorithms can be paired with these data and used to help the County make more informed decisions to help small business owners. For example, machine learning algorithms can be used to help train the EPIC-LA system to more accurately and quickly qualify vendors using its small business certification program as a marker. This could not only increase the number of qualified vendors that are processed, but also aid County staff in developing new methods of addressing future small business concerns.

Though the very term “automation” immediately heightens concerns over job loss or displacement, which is contrary to the desired outcome, automating this website can create more jobs for the engineers and data scientists needed to build the automated system as well as the program leaders who will help small business owners on a case-by-case basis. This project can be further staffed with administrative analysts needed to examine the website’s data, develop weekly reports, and generate recommendations. This positive feedback loop opens the realm for developing new jobs in other growth sectors in the future. The EPIC-LA website can be a pilot project for further innovation and cross-collaboration in the County.

C. WORKFORCE DEVELOPMENT

4. A recurring theme between the LAEDC strategic plan, the BizFed data, and the large businesses interviewed is the increasing demand and investment needed in human capital, with a specific focus on workforce training and employee retention.

It can be logically assumed that in an era of such rapid technological advancements from self-service menus at fast-food restaurants to autonomous cars, the existing workforce must be given the skills to adapt. Furthermore, the County wants to not only maintain, but also bolster the level of local employment. Both of these issues affect small businesses in Los Angeles County, which account for 95% of employers.

The County is assessing the feasibility of local-hire provisions, specifically on affordable housing projects, providing social enterprises support as an incentive to offer services to disadvantaged community members. To target the needs of small business owners, the County plans on adjusting its policies regarding delegating contracting authority, reducing bidding price on contracts and placing caps on price preferences, all of which would contribute to alleviating difficulties in this process for small businesses.

The Task Force believes it is important to note the LAEDC Plan included a statistic that indicated that 95% of businesses in Los Angeles County are small businesses that employ 50% of the workforce. This would mean that 5% of businesses in the County are big businesses that employ that other 50% of the workforce. Based on this fact, it is pertinent that new programs are also geared toward these larger corporations.

High-tech growth sector executives, in meetings with the Task Force, expressed that while access to workforce talents is the highest priority for relocation decisions, access to public transportation and proximity to work are also key factors that inform the relocation process. To take a leadership role in developing growth sectors, the County must address this trifecta of needs.

The CEO's office has appropriately developed workforce development programs to address this issue, identifying six high growth sector industries, ranging from healthcare to information technology, and is developing customized job training to target these areas for local employment. Additionally, they are evaluating whether the job training programs have produced employment opportunities in high growth sectors.

Recommendation 4. That the Board consider directing the Director of Human Resources to work with the local university professors (i.e., UCLA, CSULA, the Claremont Colleges) to develop certificate curricula that can be administered and funded by the County. Heads of these County departments, human resources executives from large organizations in high-

growth sectors, and professors from accredited universities can jointly craft certificate programs to meet the talent needs of companies in high growth sectors.

The tech sector is one of the fastest growing contributors to the Los Angeles economy. For example, Snap's high-profile \$24 billion IPO in March 2017 effectively validated Los Angeles as a technology hub.

A recent report highlighted the current skills sets required, employment trends and career pathways for L.A.'s tech industry. The report showed that colleges in the UC and California State University systems are responsible for eight of the 10 top producers of tech talent in the region. However, the report also showed that almost one in four IT positions in L.A. did not require a bachelor's degree, including many middle skills jobs such as IT support and web development⁷.

To continue to grow these companies, the County must provide a robust pipeline of skilled workers. As a possible solution for improving the ability of the local workforce to find work in high growth sectors, the County can collaboratively work with human resources executives from large companies and academic experts to develop targeted training programs to meet growing needs. Once courses have been drafted, they can be offered to current County employees and also at local Community Colleges, giving the existing workforce the opportunity to pivot and providing new opportunities for prospective hires. This would not only keep the workforce local but also encourage employee retention.

While larger corporations do not need the same start-up leadership or procurement aid that small businesses may require, these large corporations can benefit from land allocation and employee training. The County can work with these larger corporations to understand what types of employees they desire and tailor the aforementioned certificate programs to meet the needs of these companies in exchange for a guaranteed percentage of local hires.

⁷ Building LA's Tech Talent Pipeline:
https://d3n8a8pro7vhmx.cloudfront.net/bixexchange/pages/155/attachments/original/1510781808/BXE_ITReport2017Final.pdf

D. LAND DEVELOPMENT

5. The Commission has consistently heard from developers that the land use (entitlement) process creates barriers to development. Developers expressed frustration at navigating through the entitlement approval process and having to go multiple places or sites to get fee information, all of which end up delaying projects and add to a project's overall costs.

Land entitlement is the legal process of obtaining approvals for development plans. It is a vital part of the development phase because it helps determine what can and can't be done with the property.

To ensure that the region's projected growth is sustainable, Los Angeles County developed its General Plan as the foundational framework for long-range planning for growth and development in the region. The Land Use Policy, an element of the General Plan, provides strategies used to implement the General Plan's goals and policies. The entitlement process is complex and involves many County agencies. Several permit applications and approvals have to be obtained including conformance to zoning regulations on the property. The purpose of the County's Planning Department is to review proposed developments to ensure they comply with the County's Zoning Ordinance, facilitate the process to ensure that projects are built in harmony with existing developments, and do not negatively impact existing adjacent uses.

All land use decisions must adhere to the General Plan and its elements for implementation. The process of shepherding the development or redevelopment of an improved real estate can be complex and frustrating to navigate. Entitlement and development of real estate entail extensive approval processes involving multiple County agencies. Many projects will require zoning changes, plan amendments, public and/or private easements, use restrictions, and development agreements requiring subdivision to create new tax parcels to accommodate the developer's plans. Consequently, it is common for a project to require various approvals, permits and approvals from regulatory bodies, resulting in delays and frustrations.

Recommendation 5a. That the Board consider directing the Director of Regional Planning and Director of Consumer and Business Affairs to jointly develop a one-stop business concierge program mirroring the newly formed small business concierge program, to help prospective small and large businesses navigate doing business in Los Angeles County.

Recommendation 5b. That the Board consider directing the Director of Regional Planning and Director of Consumer and Business Affairs to jointly develop a centralized database that contains a summary of all fee schedules for easy access, a permit fee calculator to estimate the costs for any transactions or services, and the capability to view accounts and pay invoices online.

The County of Los Angeles routinely handles housing, residential, retail, commercial, industrial projects. The complexity of land use permitting and administrative hurdles can frustrate customers. The new systems and enhancements will help customers achieve their development goals and retain businesses in the County.

E. CONCLUSION

We applaud the County's ambition and proactivity in spurring economic activities. The Commission is in support of the programs that the County has developed and implemented to address the recommendations made in LAEDC and other reports. The Commission has identified additional insights through research and has drawn qualitative conclusions from the data collected. The departments interviewed all demonstrated a strong desire and determination to succeed, and the Commission cautions the Board to be patient with the short-term deliverables and allow the current programs time to develop and mature. Additionally, the Commission believes creating a business hub for growth sectors requires a different mindset and framework for the County. This is an ambitious process that will yield tremendous and lasting benefits for many stakeholders.