

# Recommendations

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## Recommendations

In today's rapidly evolving economic landscape, resources and markets are constantly changing and moving across the globe to areas and locations where the highest values and returns can be created. Natural resources and geographic advantage are no longer the sole determinants for a region's economic success. Rather, regions and cities must create their own competitive advantages by building strong social, human and financial capital.

Los Angeles is at the forefront of powerful globalization forces that affect it long before they affect other major metropolises in the U.S. The city's history, culture, industry base and trade port have created a unique locale to which few others in the world can be compared. Indeed, Los Angeles' economy is increasingly intertwined with global economic forces, which have brought waves of trade and immigration to the region.

Yet the city's infrastructure, both physically and socially, is falling behind the needs of its population, limiting its capacity to compete effectively with other locations. Like other, older major metropolises around the world, the successes of the past have contributed to the development problems of today. Rising real estate costs, a shortage of housing and open land, and an aging manufacturing base, to name a few, hamper the city from moving forward quickly. Throughout the last decade, city government and other official agencies have proposed and implemented policies to deal with manifold challenging issues, aiming to improve the city's housing condition, workforce quality and economic development.

The recommendations in this report are based on detailed and thorough analyses of Los Angeles' industry base and labor-market conditions. They are limited to the three key areas that constitute the fundamental building blocks of a stronger local economy and prosperity: **entrepreneurial growth**, **capital access** and **workforce training**.

Other areas, though, are also critical to the city's long-term growth. These include reforming and simplifying the process for obtaining a business license, reforming the city tax code, making continued improvements in public safety, developing stronger transportation linkages and further improving the city's K-12 educational system. Though critical, these areas are beyond the scope of the project and, hence, are not included in the recommendations.

The recommendations focus on intermediate solutions to improve some of city's most urgent needs, such as fostering quality small-business growth, creating jobs to accommodate a growing labor force and building a strong industry base for future prosperity. More importantly, they focus on solutions that can be initiated and executed directly the city government, local public institutions and private business. For example, public transportation and highways, though critical to the city's allocation of human resources and transportation needs, cannot be addressed effectively by the city government alone and, hence, are not included in our recommendations.

The recommendations revolve around the most urgent action item that the city has to address and effectively tackle: building a regional economy that fosters faster business growth to create enough jobs, particularly high-quality ones, for the people who are in need of work. The three key objectives outlined below will help guide the city toward its stated goal of achieving a high-value-added economy competitive in the 21st century. They are firmly grounded in the city's current industry base and locally available assets.



## Key Objectives

- Enhance the business environment for entrepreneurs such that small firms can thrive and grow into larger businesses, and that sustainable jobs can be created for local residents. Assistance and limited resources need to be made available to those industries and firms that can sustain a great number of jobs for the local labor market.
- Enhance and supplement the city's workforce training to promote high-value production, such as high-tech and knowledge-based industries, and build regional competitiveness – for example, introduce policies that can specifically attract technology startups and high-end manufacturing firms.
- Apply public policy in a manner that creates and encourages private investment, both financial and social. Public and private educational institutions are the key players in leveraging their tremendous resources in building social capital.

## Key Recommendations

### I. Foster Entrepreneurial Growth

Los Angeles is a composite of multiple economies. Some districts are prospering, building clusters of high-end service firms that are capable of accessing markets on a national or global scale. Very often, these industries and firms utilize new technologies and capture the brightest professionals from around the world. Some districts, however, have been struggling since the declines of their respective industrial bases. The business establishments in these districts tend to serve a local market and have a very limited scope of operation beyond areas they serve, limiting their opportunities. As a leading entrepreneurial region, the city's small-business growth was instrumental to its economic recovery in the 1990s. Nonetheless, the small-business sector has yet to produce as large an impact on employment in the region as larger businesses have. Thus, the city has the opportunity to tap the growth potential of these smaller businesses to leverage employment growth and improve labor conditions.

This highly uneven development reflects divisions by knowledge level, ethnicity and often available capital among the city's industries and seven planning districts. Improving capital access for small to medium-sized firms in economically lagging districts will be an important fundamental step in addressing the region's market deficiencies.

We recommend a series of citywide initiatives to lower informational and cultural barriers, promote understanding and enhance the exchange of market information and business opportunities among industry groups and ethnic businesses in the city's seven planning districts. These proactive initiatives will enable small businesses citywide to tap into larger markets and, hence, opportunities. With more available information and intensified exchanges among small to medium-sized businesses, firms will be able to take advantage of the increased opportunities.

### Specific Recommendations

- *Place high priority on fostering faster, higher-quality entrepreneurial activity and growth, while promoting increasing numbers of small businesses and entrepreneurial activities.* This will help revive economic growth in districts where older industries need to be rebuilt or enhanced and allow smaller businesses to grow to a size where they can provide larger numbers of stable jobs.



- *Utilize the city's main institutions of research and learning, such as UCLA, USC and others, to promote entrepreneurial skills and education.* The city should form partnerships with these institutions to promote regional growth. It needs to explore the Stanford University-Bay Area and UCSD-San Diego models, which became catalysts for regional development.
- *Leverage the city's assets for faster technology-driven growth.* Los Angeles has well-known science and technology research and development institutions. The city needs to leverage them more effectively, making them the engines of high-quality job creation. The city should match up its existing workforce training programs with the strengths of these institutions' technology research and development programs. The city needs to build strong relationships between research institutions, local technology companies and the city's workforce training board. This model is similar to other successful programs, such as those implemented in the health-care industry, which were effective in utilizing federal and state funding to match local industrial job demand at the right skill levels. The state's life science/nanotechnology grants for UCLA and private endowments to USC will be a catalyst for the revival of the city's technology production base. The economic value of these technology developments for the city can only be realized, however, if the city has the development plan and quality workforce to sustain it. To fully utilize the key local research institutions, the city must develop a clear policy for encouraging the development of commercially utilizable technology through these institutions and the transfer of this technology to entrepreneurs who can apply it for the economic benefit of both the universities and the local economy. The economy in the city lags well behind those of Boston, San Jose and even Pasadena in this regard, and technology transfer is essential if Los Angeles is to continue to develop as a high-tech center.
- *Develop an initiative to promote regular and frequent meetings and seminars among the city's ethnic business chambers and trade groups.* The city can utilize the Small Business Administration's funding and existing infrastructure to institute these topical and theme-based gatherings. The target participants are small and ethnic businesses that normally lack access to information and forums for relationship building. This periodic business networking, formal and informal, enables these businesses to share their experiences, bridge business needs and share market opportunities.
- *Create a broader agenda to leverage some of the region's best minds and institutions.* In addition to providing information on market access, the city needs to draw upon some of the region's best minds and institutions to form a joint public-private center dedicated to helping small and ethnic businesses. The center's mission would be to seek practical means for helping these firms. The center's chief purpose would be to form strategies that help small businesses achieve faster growth in the region and to develop curricula for training and counseling entrepreneurs in all aspects of business operations.
- *Link young talent to aid the city's entrepreneurs.* The city should also form a working relationship with the city's business schools to promote MBA candidates' involvement in the city's small and ethnic businesses. These students tend to have some work experience and broader, up-to-date knowledge on planning, strategizing, marketing and other vital operational areas critical for firm growth. This win-win partnership would provide entrepreneurs with new knowledge and ideas at relatively low cost, while the students gain real-world experience about small businesses and industry.



- *Offer entrepreneurial, MBA-type education for the city's nontraditional students.* With the guidance of the city's educational institutions, the city can create an infrastructure that would enable local business schools to offer entrepreneurial MBA programs and entrepreneurial skills training for small-business owners. This infrastructure would offer "educational products" to ambitious small-business owners which normally only a few large corporations can afford. The program would focus on broadening both the skill sets and horizons of the attendees, elevating and improving their operational skills while providing in-depth understanding of the global business environment. This program should help small-business owners develop and build a clear vision for their own companies. The secondary goal of this program would be to form business partnerships and alliances between this culturally diverse city and its businesses.
- *Link zoning and land-use regulation to aid promising industries that can build the regional economy's future and offer sustainable employment opportunities.* As Los Angeles is one of the most densely populated cities in America, providing affordable space to promising businesses and industries here is no less important than fostering entrepreneurial activities and high-tech industries. The city can achieve faster economic growth through its administrative power by providing:
  - a streamlined permit review process for the target industries;
  - coordinated infrastructure improvement and development for areas with high concentrations of targeted industries; and
  - forums for industries to identify and act on regulatory, administrative and service-delivery issues under the city's control, which can be improved to create a friendlier climate for businesses.

## II. Improve Small-Business Access to Capital

Of the several innovations outlined in this report, we recommend the following as most valuable to the Los Angeles city economy and most appropriate for the city to pilot. All have a successful track records in other localities, and each offers a relatively economical way for the city to direct capital to small businesses.

- *Create a Los Angeles Capital Access Program that, in conjunction with lenders and borrowers, would let the city provide loan loss guarantees for loans to small and medium-sized businesses.* This program would leverage city funds, using existing, market-tested institutions to allocate the financial resources, and be comparable to the structure of other successful programs, such as the California Capital Access Program (CalCAP). The key to this program is that it would provide the risk mitigation necessary to encourage lenders to loan to businesses in markets where they have less experience doing so.
- *Establish a loan securitization program that would package diverse, targeted loans to small and medium-sized businesses, reselling them as rated securities in the secondary market, much the way Fannie Mae securitizes home mortgages.* This would lower the cost of borrowing for Los Angeles' small-to-medium-sized businesses, allow lenders to increase their lending to target communities and provide the security of earning interest on their investments to institutional investors. Since the level of risk is harder to assess for most mid-sized lenders in less economically advantaged sections of the city, the normal rates for loans are often unaffordable even when the



businesses qualify. This program would allow businesses that are at critical stages of growth a chance to evolve into the large employers the city so clearly needs.

- *Create a Los Angeles Community Investment Note that would direct capital to the smaller city businesses that could not make use of the loan-guarantee or the loan-securitization approach.* Such a note would pool investments from individuals, foundations and institutions (e.g., banks meeting Community Reinvestment Act requirements) and make loans to funds lending to smaller firms. The Calvert Foundation regularly structures and administers specialized notes for other entities and, in discussions with Milken Institute staff, has expressed its willingness to partner with the city on such a project. This approach would provide a means for businesses too small to qualify for the other approaches to still have access to the necessary capital for growth. Because of the experience of the Calvert Foundation in handling similar notes, the funds will have the advantage of being utilized through proven methods rather than untried means.

### III. Train and Develop the City's Workforce to Meet Future Needs

Los Angeles is a rapidly expanding metropolis where in-migration and immigration have created a dynamic city. However, while the arrival of new residents with different cultural backgrounds, languages and job skills injects new market forces and entrepreneurial activity into the region, those workers who lack higher education and English-language skills pose a challenge in meeting new economic and industry needs.

Los Angeles needs to have a faster-growing economy that creates jobs at all levels, not just at the lower end. The long-term workforce training and education objectives, however, should emphasize elevating resident skill levels so as to attract and sustain the city's high-value-producing industries. Given the complexity of its labor-force needs, the city's labor-force training and skill-enhancement programs should be multi-faceted and cater to different industry groups, along the lines specified in the body of this report. A measured approach is needed for workforce training and education that balances the needs of businesses with those of the individual workers. It is important for Los Angeles to put the creation of sustainable jobs at the top of its civic agenda.

Additionally, the city has to recognize the role of the informal economy in the Los Angeles economic system. City leaders should build political consensus on addressing this un-captured economic value and focus on achieving productivity gains and protection of the workers in this segment of the economy.

The following are our recommendations on labor-force training and education that will increase job mobility, aid industry growth and attract relocation firms to the region:

- *Focus training efforts on industries with the greatest prospects for growth, stability and decent wages.* The Los Angeles economy is built on a large and diverse array of industries. Many of these industries provide stable jobs and offer promising and sustainable job development prospects. These industries should be targeted for consistent, effective support to help them expand and create new jobs. The region's health-care, medical and financial services industries, and video/movie post-production digitization firms, are among those that demonstrate good potential and opportunity for job creation, and they should be targeted. The city, working with the Workforce Investment Board, will need to



address workforce training resource allocation. We recommend that the city put the highest priority on funding the targeted industries, which promise employment opportunities and the potential for career advancement across the entire Los Angeles region. The table below highlights the key industries for each planning area.

Tier 4 and 5 Industries by Planning Area for Los Angeles, 2002				
Planning Area	Num. Tier 4 & 5 Industries	Five Largest Tier 5 Industries by Planning Area		
		NAICS Code	Industry Title	2002 Employment
North Valley	26	5221	Depository Credit Intermediation	5,826
		3391	Medical Equip. & Supplies Mfg.	2,156
		3399	Other Miscellaneous Manufacturing	1,885
		3261	Plastics Product Manufacturing	1,747
		4234	Whsl. Prof. & Commerical Eqp. & Supplies	1,659
South Valley	17	5511	Mgt., of Companies & Enterprises	7,661
		4244	Whsl. Grocery & Related	3,437
		4243	Whsl. Apparel, Piece Goods, Notions	3,267
		6211	Offices of Physicians	1,963
		6241	Individual & Family Services	1,561
West LA	16	6211	Offices of Physicians	2,320
		6212	Offices of Dentists	1,494
		2361	Residential Building Construction	1,292
		5419	Other Prof., Sci., Tech., Services	1,017
		6213	Office of Other Health Practitioners	894
Central LA	34	6221	General Medical & Surgical Hospitals	39,572
		5511	Mgt., of Companies & Enterprises	12,429
		6211	Offices of Physicians	8,358
		5412	Accout., Tax Prep., Bookkeeping, Payroll	6,424
		4243	Whsl. Apparel, Piece Goods, Notions	6,071
East LA	10	6221	General Medical & Surgical Hospitals	4,703
		5221	Depository Credit Intermediation	2,829
		3231	Printing & Related Support Act.	2,511
		5511	Mgt., of Companies & Enterprises	2,350
		6211	Offices of Physicians	1,944
South LA	19	5511	Mgt., of Companies & Enterprises	7,661
		4244	Whsl. Grocery & Related	3,437
		4243	Whsl. Apparel, Piece Goods, Notions	3,267
		6211	Offices of Physicians	1,963
		3118	Bakeries & Tortilla Mfg.	1,793
Harbor	7	5613	Employment Services	2,231
		4244	Whsl. Grocery & Related	820
		3231	Printing & Related Support Act.	655
		4239	Whsl. Durable Goods	602

Sources: Economic Roundtable, ES-202

- Implement community-specific economic growth strategies.* There is great strength in the industry and worker diversity found in Los Angeles' different communities. Economic growth strategies should build on these distinctive strengths and opportunities to support the creation and expansion of industries that offer the best prospects for growth and for providing local residents with opportunities for sustainable employment. Most importantly, the city must pair local conditions with labor-force training and economic development objectives. Community-based job-creation strategies ought to be linked with job-training and placement programs for workers living in each district. However, it is still is for workers to be able to find stable employment, even when the job is located in a different community. Other social and transportation benefits can be easily derived from custom-made development strategies such as reducing traffic times.





- *Train City of Los Angeles' staff and service providers to use strategic labor market data.* Key to helping workers find and maintain sustainable jobs is to steer them toward living-wage occupations in stable or growing industries, and to help them acquire the skills to obtain and keep those jobs. Therefore, it is important to train city staff and service providers to use the rich array of labor-market information about Los Angeles' industries and occupations as they plan job-training and economic-development programs, as well as when they assess the needs of individual workers and employers.
- *Create workforce-training initiatives for small business.* Small business is the most vibrant segment of the city economy. Employment conditions and quality of workforce among these high-energy enterprises is not well-monitored or understood. Traditionally, workforce training and education tend to focus on larger companies and center on industry groupings. Since Los Angeles has experienced tremendous growth in the number of its small enterprises in the last decade, it needs to focus on these firms, setting initiatives and training programs to fit their needs. This would include allocating resources for general business and technical skill training, as well as job-specific training. City colleges and technical schools can be active participants in shaping these programs and providing training in areas such as bookkeeping, vocational skills and other general technical skills.
- *Provide Los Angeles residents with expanded opportunities for improved educational attainment and English-language proficiency.* Many city residents do not have the knowledge, skills or English-language proficiency required to obtain living-wage employment. It is important for the city to invest in its human capital to improve skills and help workers achieve significant gains. These needs are particularly acute in the Central, East and South planning areas. There is a rough northwest-southeast divide in the skill levels and prosperity of Los Angeles' resident workers. The majority of private-sector jobs and high-paying growth industries are located in the North Valley, South Valley and West Los Angeles planning areas. Alternatively, many working-poor residents are concentrated in East Los Angeles and South Los Angeles. These two planning areas also have high concentrations of limited-English-proficient workers and adults without high-school diplomas. Broad educational initiatives targeted at adult learners to improve educational attainment and expand English-language proficiency will be particularly important in these areas.
- *Induce employers in the informal economy to move into the formal economy.* The city should provide an effective combination of incentives, technical assistance and sanctions that will induce informal employers to move into the formal economy. Provide for systematic enforcement of existing labor regulations and sales-tax requirements, particularly for businesses with annual revenues greater than \$100,000 that are subject to business license taxes. Offer low-interest loans, targeted worker training and small-business assistance for immigrant entrepreneurs seeking to move into the formal economy. Offer technical and legal assistance to informal employers seeking to bring themselves into compliance with labor laws and tax-reporting requirements. Most importantly, streamline the process for business tax amnesties and the issuing of city licenses so that employers who wish to move out of the informal economy can readily do so.
- *Assist informal workers in finding jobs in the formal economy.* Bringing the informal economy within the bounds of Los Angeles' legitimate social and economic structure is a critical yet long-term task for the city. It is a complex political and cultural issue, yet an open and effective solution can help solve the city's multiple economic and labor issues. This issue, which also encompasses U.S. immigration policy and the city's labor laws, can be addressed by



providing an effective combination of skill development, education, citizenship assistance and enforcement of labor laws to enable informal workers to move into the formal economy and become self-sufficient. With sufficient policy and funding support from the federal government, actions would include:

1. Fostering an inclusive dialogue with federal and local officials, immigrant organizations and all other stakeholders about identifying fair and reasonable eligibility criteria for citizenship. Advocating immigration-law reform that provides fair and reasonable eligibility criteria for legal-resident status is the most important task. Legitimate work permits would help establish the standing of immigrant workers with long-term employment histories.
2. Advocating strengthening immigration controls to prevent continued large-scale immigration of undocumented workers.
3. Increasing the availability of English-language and basic literacy classes.
4. Providing broad access to regional education and vocation training programs for immigrants through local and regional city colleges, other educational institutions and the Workforce Investment Board.
5. Supporting efforts to protect and develop the career prospects of low-wage workers. Organizing campaigns among low-wage workers may serve to formalize the employment conditions of legal-resident workers who are informally employed and raise the wage floor to bring workers above the poverty threshold. Recognizing that the most important way to protect workers' rights and economic future is to help them acquire skill sets that are marketable and can lead to both job and economic opportunities.



## Conclusion: Transforming the Los Angeles Economy

Los Angeles is encountering many challenging forces: an influx of foreign immigration, increased movement of production and goods internationally, and advances in science and technology that have a significant economic impact. To ensure that the city's economy will be able to compete at both a regional and global level, it is essential that its workforce and businesses are up to the challenges and can seize the opportunities. The city will be able to compete successfully in the increasingly competitive globalized economy when its resources are better leveraged and utilized.

The city's current economy is not as competitive as those of many of its surrounding communities in terms of the quality of its workforce, development of a knowledge-based economy and entrepreneurship. An effective public policy to address the gap in skills between high-wage and low-wage workers, underutilization of regional intellectual capabilities and a lack of affordable capital to fund entrepreneur growth will be critical to the city's economic future.

We recommend that the city not only provide basic skill training to the low-skilled workforce, but establish better and more focused training programs driven by industry needs to elevate and enhance workers' skills for the specific jobs in demand. In respect to entrepreneurial growth, active public and private organizations must make capital more accessible to growing minority-owned and small businesses. Equally important is the sharing of information among the city's population and ethnic groups. City officials will need to help companies cross cultural and ethnic business boundaries. This will help ambitious entrepreneurs grow their firms, expand operations, exchange best practices and enable the city to revitalize its industry base.

Greater focus on targeting and nurturing emerging 21st-century industries as part of a broader development strategy is imperative. Utilizing the research institutions and innovations presented in the region, the city must be proactive to assist the growth of key science- and knowledge-based industries that will define the long-term economic prospect of the region. Leveraging local educational and research centers is a critical component of the city's economic development plan.

Finally, it is essential that city leaders engage key stakeholders and build consensus to develop and execute a shared vision for the future economy of the city. To ensure that the Los Angeles economy continues to grow and adapt, the city needs to continue as a leading center where public policy addresses critical issues such as business growth, entrepreneurship and labor-force improvement as a systematic and integral set of challenges and opportunities.

