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Food for Thought: Recommendations to Improve the Relationship between the City of Los Angeles and its Food Processing Sector

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Food for Thought:

Recommendations to Improve the
Relationship between the City of Los
Angeles and its Food Processing Sector



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Executive Summary

Since the 1980s, the manufacturing sector has been steadily declining in Los Angeles, weakening the fabric of the community, diminishing the tax base, decreasing the amount of revenue available for social services, and reducing property values. To address these problems, the City is targeting industry clusters that are growing and for which the City provides a competitive advantage. The Food Processing industry, composed of manufacturers, producers, and packagers of food and beverages for human consumption, is one such cluster. It is not only experiencing growth but also provides employment opportunities for low-skilled workers at relatively decent wages. In addition, the local assets of the LA region provide a unique set of benefits enticing firms to locate here. Consequently, the Los Angeles Mayor's Office of Economic Development (MOED) has identified Food Processing as a top priority industry to target for development.

This report sets out to assist MOED by identifying how the City can enhance its current industrial development policies to better attract and expand firms in the local Food Processing cluster. To that end, we provide the following:

- **Background information** on the Food Processing industry to help local officials better understand the scope and nature of local firms. This description will inform our discussion of problems firms face, which stem from their small size and resource constraints, and our proposed recommendations.
- **An inventory and comparative analysis** of industrial development policies across Los Angeles, Chicago, and Oakland to help our client a) learn what portfolio of services each City offers to its firms, b) identify which policies targeted firms consider beneficial, and which policies are in need of improvement, and c) determine whether Oakland or Chicago are utilizing policies that could be applicable to LA.
- **An evaluation** of the relationship between the Food Processing industry and the City of LA and recommendations to enhance that relationship.

Our comparison of the inventory of policies for each city showed that LA lacks policies that facilitate business services and tools that help firms locate and purchase land parcels.

These same issues were echoed and expanded upon in the course of over forty interviews with industry leaders, labor representatives, and city officials. Specifically, our research team identified two broad policy problems that are negatively impacting the relationship between the City of LA and the local Food Processing industry:

1. Public Outreach and Access are Inadequate

Information does not flow easily out of the City, and an opaque bureaucratic structure prevents firms from easily obtaining that information on their own initiative. Taken together, this creates a loosely defined, confused, and often frustrating relationship that constrains firms' abilities to do business in the City.

2. Shortage of and Insufficient Information about Industrially Zoned Land in LA

While the high price of land already makes relocation or expansion of facilities difficult, firms are further impeded by a lack of knowledge about available land for purchase and by zoning changes that remove industrially zoned land from the market.

These problems do not appear to be sector-specific to food processors. Rather, the issues cited by the firms we interviewed focused on more general problems associated with conducting business in the City.

To address these policy problems, this report recommends that MOED take the following steps:

Improve Inadequate Public Outreach and Access

✓ A comprehensive marketing strategy

MOED should develop a comprehensive marketing strategy to communicate existing policies to firms in the City. Elements of this strategy should include the creation of a reliable committed funding source, such as a budget line-item; the increased availability of

informational resources both in print and on-line; and informational campaigns targeted to start-ups and small businesses, older, established firms, and professional support services that serve Food Processing firms.

✓ **Create a one-stop public counter for business services**

The City should develop a one-stop public desk designed to help businesses navigate the City's various departments and agencies by answering questions, connecting them directly with the appropriate individuals, and possibly providing necessary paperwork and forms ahead of time.

✓ **Use public support to more effectively mobilize FIBR**

The revitalization of the Food Industry Business Roundtable (FIBR), a local association for food processors, is an essential step toward enhancing the relationship between the City and Food Processing firms. A more active association would provide increased points of contact between industry representatives and city officials, providing both sides with increased opportunities to communicate new programs and incentives or needs and concerns.

✓ **Consolidate economic development functions into one office**

Currently, there are three local agencies or departments that handle various elements of the City's economic development agenda. MOED should consider consolidating the economic development functions of these three offices into one department or office in order to provide more coordination and consistency in the City's economic development programs.

Alleviate the Shortage of and Insufficient Information about Industrially Zoned Land

✓ **Create a site assistance program**

We recommend that a new, comprehensive site assistance program be run by the Community Development Department's Industrial and Commercial Development Division (ICD). Firms should be able to easily access a centralized master list of available industrial parcels that includes not only each parcel's exact location, but also its major site characteristics including

square footage, proximity to freeways, rail lines or other transport corridors, and any unique built-in industrial features such as special loading docks or freezer facilities.

✓ **Increase Zoning Protection for Industrial Parcels**

LA needs to institute a higher level of zoning protection for its industrial districts through a set-aside of certain industrial areas. We recommend that the City either a) pass an ordinance clearly stating LA's rezoning priorities, or b) write the change into the City's general plan, making it impossible for a requested zoning change in a priority industrial area.

Better communication of industrial development policies, improving access to city hall, and making it easier for firms wishing to locate or expand in LA to find land are the first steps necessary for fostering a healthy relationship with the FP industry. Moreover, given that there are significant similarities between Food Processing firms and other sectors in LA, we anticipate that the benefits associated with these policy changes will spill over and positively affect sectors across the local economy. Taken together, these recommendations have the potential to help the city better understand and serve the needs of local businesses. A strong manufacturing base will, in turn, offer jobs and opportunities to the people who live here.

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Although we are prohibited from thanking them by name, there are numerous city officials, industry and labor representatives, economists, and food processors who gave generously of their time and expertise for our project. We sincerely hope that this report will bring some benefits to you in exchange for your help.

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Chapter I

Introduction

Problem Definition

Los Angeles' manufacturing base has been steadily declining for the past two decades. This has contributed to the loss of 200,000 jobs, an erosion of the tax base, and urban blight and disinvestment. Each lost job is an average reduction of \$1,230 in local tax revenue, resulting in less funding for social services and other City functions.¹ Moreover, this fails to account for the loss of State and Federal revenue and the imposed social costs of greater unemployment. In addition to lost revenues, the disappearance of firms results in more vacant and under-maintained facilities, which lowers property values and accelerates the cycle of disinvestment.

Why is the Food Processing Industry so Important to LA?

To address these problems, the City is targeting industry clusters that are both growing and for which the City provides a competitive advantage.² The Food Processing (FP) industry, composed of manufacturers, producers, and packagers of food and beverages for human consumption,³ is one sector of the local manufacturing base that is not only experiencing growth, but also provides employment opportunities for low-skilled workers at relatively decent wages.⁴ FP employs over 44,000 workers in the county⁵ and makes up 1.1% of total county

¹ "Incremental Value of a New Job in LA County." Los Angeles Economic Development Council (LAEDC). <http://www.laedc.org/data/pdf/value_of_a_job-impact_on_LA_County_only.pdf>.

² An industry cluster is a geographically proximate group of interconnected companies and associated institutions with a dominant industry at its center, and with participating firms linked by production and support relationships. Rodino Associates, "Project to Develop Integrated Economic Development and Community Redevelopment Strategies through Industry Clusters; Task 1: Industry Clusters Summaries." December 12, 2001. Within industry clusters, local firms rely upon one another through linkages of supply and demand between firms, draw from common skilled labor markets and benefit from common access to specialized industry services. Community Development Technologies Center. "From Harvest to Table: the Food Preparation Industry Cluster in Los Angeles County." March, 2001.

³ Statistics on Food Manufacturing are derived from NAICS code 311 "Food Manufacturing." NAICS Code 311 includes, "Industries in the Food Manufacturing subsector [that] transform livestock and agricultural products into products for intermediate or final consumption . . . the food products manufactured in these establishments are typically sold to wholesalers or retailers for distribution to consumers, but establishments primarily engaged in retailing bakery and candy products made on the premises not for immediate consumption are included." U.S. Census Bureau, "2002 NAICS Definitions 311 Food Manufacturing." <<http://www.census.gov/epcd/naics02/def/NDEF311.HTM>>.

⁴ Rodino Associates, 29.

⁵ State of California Employment Development Department, "Food Manufacturing Employment

employment.⁶ Moreover, FP is a significant local employer of low-skilled workers, one of the most chronically underemployed groups in LA, at higher wages than most service or retail jobs. In 2003, the average hourly earnings for the FP industry in California were \$13.61, significantly higher than similar low-skilled jobs in the US.⁷ In addition, the numerous local assets of the region, namely access to agriculture, machinery and technology; ports and rail lines; dense supply networks; and a low-skill labor market, provide a unique set of benefits enticing firms to locate and remain here.

The FP sector also has qualities and needs similar to other industry clusters in LA, so the benefits of programs targeted toward the FP industry are likely to spill over and be enjoyed by firm owners and workers across the City. Like other industries, most FP firms are small, with less than 50 employees, provide on the job training to low skill workers, face offshore competition, and are resource strapped. Moreover, like the apparel, furniture, and jewelry industries in LA, the FP industry struggles with the high costs of doing business in the City and is constricted by the shortage and high costs of land. These constraints make it difficult for industries to mobilize as a group, communicate their needs to city officials, stay abreast of new policies and developments, and afford to remain in the City.

What is the City Doing to Assist the FP Industry?

Successive mayoral administrations have been well aware of the number of jobs that the FP industry provides and its growth over the past decade, and, as such, LA has a long history of emphasizing the industry in economic development reports. Ten years ago, the City of Los Angeles adopted the theory of regional cluster assistance as a path toward industrial development. The Riordan administration targeted eight industries for promotion to help the City recover from its recession stemming from the Northridge Earthquake, the shrinking defense industry, and contractions in the real estate market.⁸ FP was named as one of these priority industries.

1993-2003: Los Angeles County.” Updated 2/25/2004. <[http://www.calmis.ca.gov/file/indhist/la\\$haw.xls](http://www.calmis.ca.gov/file/indhist/la$haw.xls)>.

⁶ Ibid.

⁷ State of California Employment Development Department, “2003 Average Hourly Earnings for California and Major Metropolitan Statistical Area.” Generated February 26, 2004.

<<http://www.calmis.ca.gov/file/indh&e/allahe03.xls>>, and Rodino Associates, 30.

⁸ PS Enterprises.

More recently, Mayor Hahn's Office of Economic Development (MOED) and the Community Redevelopment Agency (CRA) sponsored further analysis of six industry clusters for the purpose of creating an integrated economic development and redevelopment strategy for the City.⁹ The two criteria used to determine key clusters were a) the potential for strong job growth at greater than minimum wage levels for low-skilled workers, and b) the appearance of significant competitive advantages regarding economic, locational, and physical space needs. Again, the findings showed the FP industry as an important regional economic player.

Policy Question

This report sets out to assist MOED by answering, *How can the City of LA enhance its current industrial development policies to better attract and expand firms in the local Food Processing cluster?* To address this question, we provide a three-tiered analysis:

1. Background information on the FP industry to help local officials better understand the scope and nature of local firms.

Through undertaking a comprehensive literature review, we provide information on the employment base, potential for growth, major trends, and the prevalence of the industry in LA and two comparison cities, Chicago and Oakland. We selected Chicago because it has the largest FP cluster in the nation and is a significant FP employer. We chose Oakland because it faces the same state standards and limitations as LA and has a similar industry composition.

A description of the industry and its trends will better inform decision making about current and future industrial development policies. Most firms are small, resource strapped, and looking to expand their facilities in the next 10 years. Moreover, the industry is changing due to automation, greater consolidation, and increased national and global competition. These firm characteristics and trends are linked to the problems firms have in dealing with the City. To that end, being aware of the FP environment will allow the City to formulate new and refine existing policies.

⁹ Rodino Associates.

2. An inventory and comparative analysis of ID policies across Los Angeles, Chicago, and Oakland.

We compiled a comprehensive list of the industrial development (ID) policies offered by each city and compared them across six major categories: financial, organizational, land use, workforce development, utilities, and environmental. This analysis will help MOED determine whether or not LA's offering of ID policies is comparable to that of Chicago and Oakland, and, if not, how and why LA's ID strategy differs. This presents an opportunity for LA to gauge its efforts against other cities with prevalent manufacturing sectors and to identify best practices from the field.

We found that LA's inventory of organizational assistance and land use incentives was not as comprehensive as those offered in Chicago and Oakland. Specifically, LA is missing policies that facilitate business services and tools that help firms locate and purchase land parcels.

3. An evaluation of the relationship between the Food Processing industry and the City of LA and recommendations to enhance that relationship.

A city interacts with its resident firms by regulating their activities, providing them with incentives, and offering them basic services. One way to assess the strength of the relationship between the city and its firms is to measure the ease with which these activities take place. By conducting over forty interviews with industry leaders, labor representatives, and city officials we found that there are opportunities for improving the relationship between LA and its FP firms. Specifically, we found that public outreach and access are inadequate, and there is a shortage of and insufficient information about land use and availability. Chicago and Oakland have introduced programs to address these needs, and their local firms are finding them to be helpful.

Chapters Four and Five provide detailed recommendations for how LA can address these problems based on the successful strategies employed by other cities. These include:

- Developing a comprehensive marketing strategy,
- Creating a one stop public counter for business services,
- Mobilizing FIBR, a local FP business association,

- Consolidating economic development activities into one city department over the long-term,
- Creating a site assistance program, and
- Instituting a higher level of zoning protection for industrially zoned land.

We believe these solutions are both politically and economically feasible given the City's current fiscal crisis. Moreover, they will greatly improve the City's relationship with FP firms and spill over into other manufacturing sectors, helping the City to achieve its goal of stimulating growth and development of manufacturing jobs in LA.

Chapter II

Toward a Better Understanding of the Scope and Nature of the FP Industry: Background on FP in Los Angeles, Chicago and Oakland

The following section provides a definition and a snapshot of the FP industries in LA, Chicago and Oakland in terms of FP's employment base, FP's potential for growth, and the prevalence of FP in each city. Further, to demonstrate that a comparative analysis of FP across LA, Oakland, and Chicago is feasible, we provide a brief discussion of the similarities of industry structure, city climate, and trends affecting the FP industry in these cities.

Background information on the industry and its trends will enhance decision makers' ability to craft industrial development policies. Most firms in the sector are small, with less than 50 employees, strapped for human and financial resources, and are looking to expand their facilities in the next 10 years. Due to their small size and limited resources, FP firms experience difficulty in learning about existing policies, accessing City Hall, and communicating their needs. Moreover, the high cost and limited availability of land hinders firms' ability to expand. Greater awareness of the FP environment will allow the City to refine existing and formulate new policies.

Definition of FP

The FP industry can encompass all members of the food production chain: raw material suppliers, food manufacturers, food packagers, shippers, distribution warehouses, retail markets, and restaurants. However, this study is only concerned with members of the FP industry who manufacture, produce and package food and beverages for human consumption.¹⁰

Los Angeles

In Los Angeles, the FP industry is characterized by stable and constant growth.¹¹ FP employment in Los Angeles County fluctuated over the past decade, with a high employment in 1993 of 47,700 and a low in 1995 of 42,600. Since 1995, employment has grown steadily and in

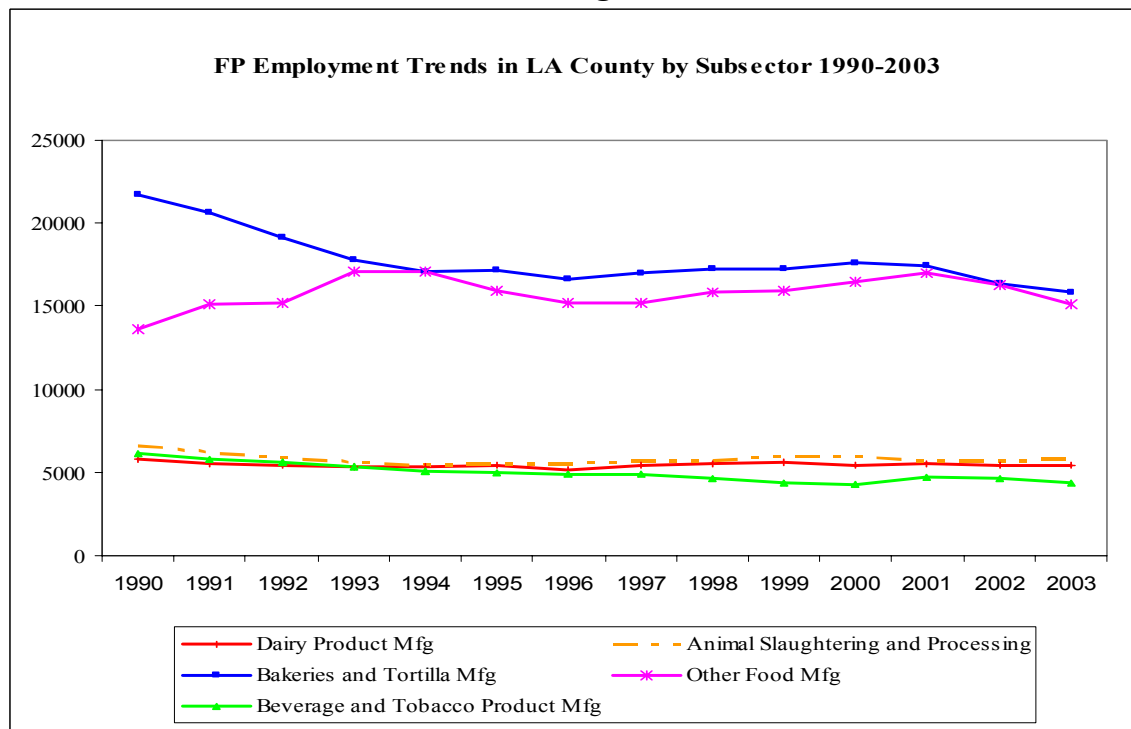
¹⁰ U.S. Census Bureau, "2002 NAICS Definitions 311 Food Manufacturing."

¹¹ Rodino Associates, 28.

2003 was estimated at 44,800.¹² FP in LA County makes up 1.1% of total county employment.¹³ Twenty-three percent of workers in the FP industry belong to a union or are covered by a union contract.¹⁴

LA's largest subsectors of FP are bakeries and tortilla factories, which account for 33% of FP employment in the county (See Figure 1).¹⁵ Other key industry segments in LA include beverages, dairy, tortillas, fresh cut produce, and ready-to-eat products.¹⁶

Figure 1



Source: State of California Employment Development Department. "Food Manufacturing Employment 1983-2003: Los Angeles County."

Small FP firms dominate the Los Angeles area: 82% of businesses employ less than 50 people.¹⁷ In 2003, the average hourly earnings for the FP industry in California were \$13.61.¹⁸ The

¹² State of California Employment Development Department, "Food Manufacturing Employment 1983-2003: Los Angeles County." Updated 2/25/2004. <[http://www.calmis.ca.gov/file/indh/la\\$haw.xls](http://www.calmis.ca.gov/file/indh/la$haw.xls)>.

¹³ Ibid.

¹⁴ Kramer, William. UCLA Labor Center, "Organizing Food Processing in LA." n.d.

¹⁵ Rodino Associates.

¹⁶ UCLA Labor Center.

¹⁷ Ibid, 29.

¹⁸ State of California Employment Development Department, "2003 Average Hourly Earnings for California and Major Metropolitan Statistical Area." Generated February 26, 2004. <<http://www.calmis.ca.gov/file/indh&e/allah03.xls>>.

average salary for FP workers in LA County is about \$30,000 per year, significantly higher than similar low-skilled jobs in the US.¹⁹ Further, 75% of jobs are production workers such as bakers, mixing and blending machine operators, and packagers.²⁰

Los Angeles has enormous potential for growth in FP, which is a large motivator behind the City's interest in the industry. In 1999, LA had 1,172 firms with sales of \$12-13 billion per year.²¹ Los Angeles boasts networks of producers, wholesalers, distributors, and manufacturers, which are necessary for responding to the uncertain demands in the FP industry. For example, most segments of the food production chain, including raw food suppliers, food manufacturers, institutional buyers of processed food products, industry business service providers, and food service providers, are located in and around Los Angeles, forming the second largest FP cluster in the United States. Los Angeles also enjoys close proximity to farmlands and raw materials, good access to transportation, and access to markets. Further, FP ranks as the second most prevalent industry within the LA empowerment zone.²²

The presence of an FP cluster in LA is illustrated by Figure 2, a map of all food processing firms in the City.²³ The vast majority of firms are concentrated in the downtown region and just southeast of downtown, near the convergence of the I-5, I-10, and Route 60 freeways. Given the proximity to transportation connectors to the Central Valley and other outlying agricultural regions, this is a logical location. It is also a central location, providing equivalent access to LAX and the port complex as well as highly populated areas for the distribution of food products.

¹⁹ Rodino Associates, 30.

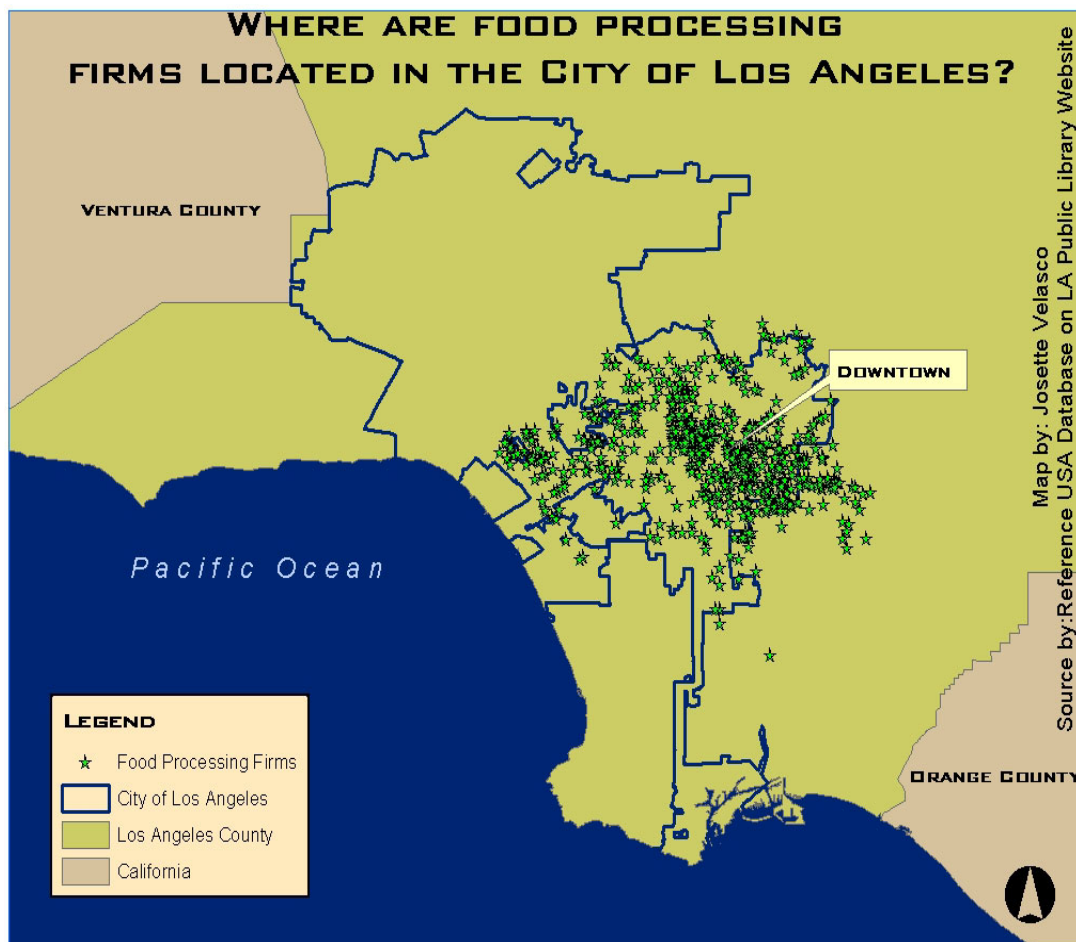
²⁰ Ibid, 30.

²¹ Ibid, 29.

²² Ibid, 29.

²³ The list of firms for this map was produced by querying the ReferenceUSA business database for all firms in Los Angeles with an NAICS code of 311, the food manufacturing code. Unfortunately, this method produces a few anomalies. First, some firms just outside of the city list their mailing addresses as Los Angeles and are represented on the map despite their location outside city limits. Second, code 311 also includes some establishments that we would not consider food manufacturers (retail food establishments, for example, who may produce and prepare some of their own food products such as dough for bread). This may explain the concentration of firms shown on the Westside near UCLA and Beverly Hills, as well as other decidedly non-industrial portions of the City.

Figure 2



Chicago

Chicago has been at the center of FP in the United States for the last century. Today, one in six FP workers in the U.S. works in the Chicago area.²⁴ Chicago-Cook County has the number one market in the U.S. in FP and distribution with over \$50 billion in sales.²⁵ FP is Chicago's single largest manufacturing employer despite contraction over the last decade; it currently employs 18% of Chicago's manufacturing workers.²⁶ In 1997, Cook County housed 51,007 FP employees, and the City of Chicago had 30,404.²⁷ Cook County has a strong presence of FP

²⁴ Chicago-Cook County Office of Economic Development. "A Global Marketplace.Business Kit. Summary of Employment by Standard Industrial Classification, (SIC)."

²⁵ Chicago-Cook County Office of Economic Development. "A Global Marketplace.Business Kit. Industry Trends 2002."

²⁶ Illinois Bureau of Labor Statistics. <ils.org>.

²⁷ Chicago-Cook County Office of Economic Development. "A Global Marketplace.Business Kit. Summary of Employment by Standard Industrial Classification, (SIC)."

company headquarters and manufacturing facilities, including Nabisco, Sara Lee, Wrigley, and Tootsie Roll. The three biggest subsectors in Cook County are grain mills, bakeries, and sugar/confectionary producers. The average FP wages in Chicago are higher than in the US as a whole. Moreover, the value added per employee is higher in Chicago than the national average.²⁸

Although FP employment and the number of FP firms declined in Chicago throughout the 1990s, Chicago-Cook County Business Center recently chose the industry as a top priority.

Oakland

Oakland ranks FP as one of their leading industry sectors. Despite recent consolidation within the industry, emerging small and medium sized companies continue to grow. In 2003, Alameda County employed 22,000 people in the FP sector, which constitutes 1.3% of all manufacturing jobs in the County.²⁹ Similar to Los Angeles, FP employment declined between 1990 and 1995, dropping from 28,600 to 26,800. Employment began increasing after 1995; however, in 2000 it dropped again to 25,700 and has been decreasing to 2004's decade-low level. Despite this, California estimates that FP employment in Alameda County will grow by 8% between 2001 and 2008.³⁰

In 2003, Oakland named the FP industry as a target industry for upcoming development activity based on the FP industry's historical strength in the region and its potential for growth.³¹

Similarities to Los Angeles

Chicago's and Oakland's FP industries have similar characteristics to Los Angeles' industry structure and city climate. Employment in the sector across all three cities has been relatively stable over the past decade (See Figure 3). All cities boast close proximity to both agricultural and raw materials and transportation infrastructure that connects rail, truck, and air transit

²⁸ Chicago-Cook County Office of Economic Development. "A Global Marketplace.Business Kit. Summary of Employment by Standard Industrial Classification, (SIC)."

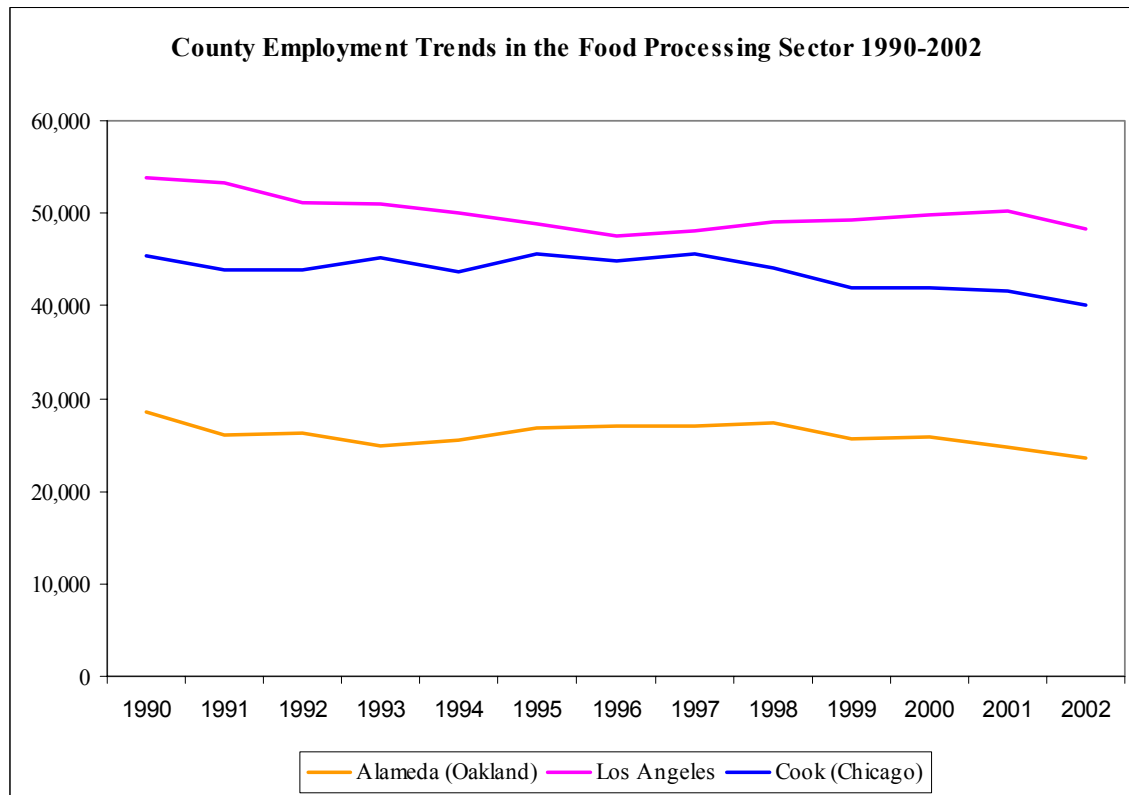
²⁹ State of California Employment Development Department, "Food Manufacturing Employment 1993-2003: Alameda County." Updated February 25, 2004.. <[http://www.calmis.ca.gov/file/indhist/oak\\$haw.xls](http://www.calmis.ca.gov/file/indhist/oak$haw.xls)>.

³⁰ State of California Employment Development Department, "Industry Employment Projections. 2001-2008: Alameda County." December 2003. <<http://www.calmis.ca.gov/file/indproj/alametb2.htm>>.

³¹ City of Oakland Community and Economic Development Agency, "Target Industry/Areas." <<http://www.business2oakland.com/main/businesstaxincentiveprogram.htm>>.

services. Chicago and Oakland also have a disproportionate number of small firms and strong foundations of existing local food manufacturers. Chicago has also identified similar issues in FP industrial development as Los Angeles, including scarcity of contiguous land plots, zoning issues, and obsolete infrastructure, and is a key regional hub in the FP distribution chain. Oakland faces challenges similar to Los Angeles in retaining firms within the City as there is an interest among firms in relocating to areas just outside of City limits that are perceived to be lower cost locations.

Figure 3



Sources: State of Illinois Workforce Information Center.

<www.wic.ilworkinfo.com/analyzer/mappages/map.asp?mapcode=04>. Select Cook County, years 1990-02, Food Manufacturing; State of California Employment Development Department, "Food Manufacturing Employment 1983-2003: Los Angeles County." Updated 2/25/2004. <[http://www.calmis.ca.gov/file/indhist/la\\$haw.xls](http://www.calmis.ca.gov/file/indhist/la$haw.xls)>; Please note Oakland is in Alameda County. State of California Employment Development Department, "Food Manufacturing Employment 1993-2003: Alameda County." Updated February 25, 2004. <[http://www.calmis.ca.gov/file/indhist/oak\\$haw.xls](http://www.calmis.ca.gov/file/indhist/oak$haw.xls)>.

General FP Trends

The same changes and trends are affecting firms in all three cities, and are driving changes in local employment patterns. Overall, the FP industry is growing due largely to increasing racial, ethnic and cultural diversity in the population, which is prompting new and expanded ethnic niche markets.³² Changes in household structure and employment practices are also contributing to industry growth. Most households now have two income-earners, leaving less time available for food preparation. Concurrently, there has been a marked increase in single person households. These employment trends are helping to drive an increased demand for convenience

³² Community Development Technologies Center. "From Harvest to Table: the Food Preparation Industry Cluster in Los Angeles County." 19

or service-oriented food products, such as “convenient meal solutions,” pre-cut vegetables, and ready-to-eat meals.³³

Even though the industry is expected to continue to grow, it is vulnerable to a number of factors that could slow its growth and lead to localized job loss. As with most mature industries, there has been a tremendous amount of consolidation within the FP industry. This had led to increased competition from both national and global sources. Slotting fees, the cost a company must pay to display its product on grocery shelves, continue to rise, which forces many smaller companies to develop brands that they can then sell to larger retailers.³⁴ Automation is also reshaping the industry. Many functions which used to be labor intensive are now almost wholly done by machines. While this is contributing to overall job loss, it is also creating safer jobs and working conditions.³⁵ For the remaining jobs, most types of firms do not require skilled labor. Rather they are generally looking for low-skilled workers who they then train on-site. Finally, firms we spoke to grumble about the additional paperwork stemming from increased regulations, especially within the meat subsector, but also acknowledge that quality has dramatically improved and there are significantly less product recalls.³⁶ These trends increase costs, which contribute to firm closures, and decrease employment opportunities. To that end, it would behoove city officials to be aware of both positive and negative industry drivers as it formulates new and refines existing policies to support the FP industry.

³³ Ibid, 20

³⁴ Ibid, 27.

³⁵ Interview, March 22, 2004

³⁶ Interviews, March 2 and 11, 2004

Chapter III

Methodology

Our research methods were designed to evaluate the following:

- The scope and nature of the FP industry in LA, Chicago and Oakland;
- The current set of industrial development policies in LA, Chicago, and Oakland, and what policies LA is missing compared to the other two cities,
- The utility of LA's current industrial development policies through the eyes of the industry, and
- The relationship between FP firms and Los Angeles departments and agencies and how it compares to the relationship between firms and city agencies in Chicago and Oakland.

To this end, we undertook a two-pronged approach. The first phase consisted of a literature survey of secondary sources, including trade periodicals, regional economic development reports, and descriptive industry analyses. The second prong consisted of phone surveys, in-depth interviews, and on-site visits with FP firms, industry associations, city officials, and labor leaders in Los Angeles, Oakland, and Chicago (See Appendix E for copies of our interview guide).

This approach complements CRA consultant Robert Rodino's analysis of the environmental technology industry completed for the Industrial Development Policy Initiative (IDPI), a working group constituted by MOED to further develop and foster civic support of manufacturing industries. The similarity of approach will make it easier for IDPI members to compare and contrast the findings and recommendations given for these two industries, the top two priority clusters identified by the City. We also believe that supplementing a literature review and the collection of statistics with interviews and site tours provides information that enriches policy makers' understanding of local industrial strengths, weaknesses, and dynamics.

Our research approach yielded largely qualitative data from which to draw our conclusions and make our recommendations. This was done purposefully in order to add value to the current knowledge base, which already contains a quantitative analysis of the FP industry in LA:

CDTech's 2001 report, *From Harvest to Table*.³⁷ Undertaking new qualitative research allowed us to look more deeply into the industry to analyze the processes by which FP firms make decisions about where to locate themselves, and provided for greater variation in responses than a quantitative survey. Ultimately, this is the kind of information our client is seeking, and the research approach was vetted by MOED's IDPI advisory group prior to beginning any data collection.

In total, we interviewed the owners of 28 FP firms, 17 firms in the LA region, 7 in Chicago, and 4 in Oakland. We also spoke with a representative from the National Food Processors Association and 14 public officials from Los Angeles, Chicago, and the State of California. To comport with UCLA Institutional Review Board standards, we must maintain the anonymity of the identities of all city officials and firm owners who we interviewed. We spoke with a representative cross section of large and small firms and different subsectors, but we recognize that those firms that we spoke too could be systematically different from the ones we were unable to reach. One primary concern is the firms that spoke to us were angry or upset enough about something to want to speak out, whereas the firms that declined to be interviewed may be generally fairly content with the system as it is. To that end, the need for greater marketing of policies and less bureaucracy could be overstated in this study (See Appendix A for more information on our sampling and data collection methods).

³⁷ Community Development Technologies Center is a community development corporation in South Central LA.

Chapter IV

Is LA doing enough to support the local FP Industry? A Comparative Analysis of LA, Chicago, and Oakland's Industrial Development Policies

Los Angeles offers a rich array of incentive programs for economic development, stemming from funding at either the federal, state, or local level. Yet MOED questions whether or not the available inventory of policies is sufficient compared to other urban cities with active manufacturing sectors. The City is interested in whether other cities are adopting different strategies to curb the loss of manufacturing jobs, and, if so, how successful these approaches have been. This comparative component is important because it offers an ability to gauge LA among its urban counterparts and to consider best practices from the field.

As previously stated, Chicago and Oakland were chosen as comparative cities because both cities are targeting FP for economic development assistance. In this chapter, we will compare the three cities' inventories and assess potential weaknesses or deficits in the LA policy framework that emerge from the comparison.

General Framework of Industrial Policies

LA, Oakland, and Chicago offer a mixture of standard industrial policies and policies unique to the individual city. Table 1 displays the universe of available industrial policies and illustrates which of the three cities currently offer each program or incentive. In general, industrial policies fall under six categories:

- *Financial incentives* include policies to provide cost relief for either new or existing firms through vehicles such as bonds, tax credits, or trade tariff reductions.
- *Organizational programs* offer accessibility and communication to firms needing direction or assistance from a city.
- *Land use programs* include specific policies related to land or infrastructure purchase and development. This includes assistance for site location, physical infrastructure improvement projects, and building façade improvements.

- *Workforce development policies* offer wage credits for employing certain at-risk populations or employees from defined targeted geographic areas.
- *Utility incentives* are special programs to contain utility fees and taxes for industrial businesses.
- *Environmental programs* offer assistance for the cleanup or identification of contaminated land, referred to as brownfields.

Federal & State Industrial Policies

Industrial policies are designed and monitored at either the federal, state, or local level. This section describes the existing federal and state policies available to the cities. It is important to examine state and federal policies because local development policies are shaped in large part by state priorities and federal qualifying programs. For example, California and Illinois have different state tax codes, and LA and Oakland qualify for different federal incentives.

The federal government, through the Department of Housing and Urban Development, identifies Empowerment Zones, Enhanced Enterprise Zones, and Renewal Community Zones for specific benefits. Los Angeles and Chicago house both Empowerment and Renewal Community Zones. Parts of Oakland are designated as Enhanced Enterprise Zones. These zones are economically distressed areas requiring infusions of development more than other city neighborhoods. As Table 1 indicates, most federal policies are offered in all three cities.

At the state level, both California and Illinois offer incentives for state-determined at-risk neighborhoods called Enterprise Zones (not to be confused with Federal *Enhanced* Enterprise Zones). These include many facets: environmental, financial, land use, and workforce development. The primary difference between the two states' policies concerns property tax credits and reductions. Illinois offers extensive property tax incentives such as Tax Increment Financing (TIF) areas, which set property taxes at a base level and allocate growth above the level to redevelopment projects, and Special Services Area Designation (SSA), which allows clusters of industrial firms in one area to request a localized property tax levy to pay for

enhanced services.³⁸ California is more restricted due to Proposition 13, which keeps property taxes low. Therefore, the limited growth in tax valuation offers fewer opportunities to develop policies from this specific tax.

Local Policies: What is LA Missing?

LA currently lacks programs in three of the six categories of industrial policies when compared to Chicago and Oakland. Within the three categories, the following local policies are missing:

1. Financial Incentives Programs

- Special Services Area Designation
- Float Loan Program

2. Organizational Assistance Programs

- Business Express
- One Stop Capital Shop
- Business Incubators

3. Land Use Incentives Programs

- Site Assistance
- Property Tax Incentives
- Industrial Street and Alley Vacation Program
- Business Infrastructure Assistance
- Commercial Property Façade Improvement Program

1. Financial Incentive Programs

Of the two listed financial policies lacking in the City, one (Special Services Area Designation) is inappropriate for consideration because, as mentioned earlier, it is dependent on property tax levies which are limited in California cities by Proposition 13. Therefore, as much as these programs are appreciated and used in Chicago, it is not possible to implement in LA because of political limitations. The second program, the Float Loan Program, offers small loans for construction, renovation, and acquisition of assets. This program does not need to be replicated

³⁸ City of Chicago Department of Planning and Development. < <http://ci.chi.il.us/PlanAndDevelop>>.

in LA because other programs offer similar benefits. Currently, LA provides Industrial Development Bonds for low-interest bond financing and Commercial Revitalization Reductions for cost reduction of new or rehabilitated property. These already offer access to capital for local FP firms. In addition, given the current financial climate in LA and California, it may be difficult to finance another major capital program.

Summary of Financial Incentive Findings: LA remains competitive within its means among the financial incentive policy programs offered in Chicago and Oakland.

2. Organizational Assistance Programs

Chicago and Oakland both offer consolidated access to business information from one centralized office. Chicago offers a Business Express Office dedicated to solving business problems related to regulations, services, and business incentives. Oakland supplies a multi-service One Stop Capital Shop to ignite small business start-up and expansion efforts. These programs work to reduce the informational transaction costs on local businesses in order to provide easy and quick access to pertinent local, state, and federal policy information. LA currently has no such similar office aimed at facilitating business services. We recommend LA consider adopting a similar program and will discuss the opportunity in further detail in Chapter 5. The third program not offered in LA is a business incubator. However, the County of Los Angeles provides such an opportunity for start-up businesses; therefore, we do not believe there is a need to duplicate this effort at the City level.³⁹

Summary of Organizational Assistance Findings: We recommend consideration of a centralized business center similar to both Chicago and Oakland's models (see Chapter 5 for further information).

3. Land Use Incentive Programs

There are five land use policies that LA does not currently offer. The first one, a Site Assistance Program from Chicago, would be highly valuable in LA. Firms interviewed in the area

³⁹ Please see Los Angeles County's Community Development Commission web site for further information on the Business Incubator Program: <http://www.lacdc.org/economic/incubators/index.shtm>.

mentioned their interest in a central database of available land for industrial development. This topic will be discussed in further detail in Chapter 6 as a recommendation for the City. The second program, Chicago's Property Tax Incentive, is inappropriate for the same political reasons discussed earlier regarding Proposition 13. The third program, the Industrial Street and Alley Vacation Program, provides opportunities for industrial firms to purchase underutilized streets and alleys for infrastructure improvement. One Chicago public official described the program as limited because there are not many underutilized streets and alleys in the City.⁴⁰ LA would probably reach the same conclusion; therefore, we believe it is not worth further consideration other than on a case by case basis. Chicago and Oakland both offer different variations of a Business Infrastructure Assistance program. This is a cost-sharing mechanism that splits infrastructure improvement costs equally between the City and firm. Again, certain firms in LA mentioned a desire for greater infrastructure assistance from the City. Specifically, firms in low-income areas, especially Skid Row, expressed interest in greater street cleaning efforts by the City.⁴¹ While these two programs are interesting, any infrastructure issues are part of a much larger infrastructure problem in LA that is beyond the scope of this paper (See Future Areas of Research for a brief discussion on Infrastructure issues).

Summary of Land Use Incentive Findings: Of the five land use programs not offered in LA, we recommend further exploration of one: a site assistance program (see Chapter 6 for further information).

⁴⁰ Interview, February 18, 2004

⁴¹ Interviews, March 5 and 11, 2004

Table 1
Comparison Matrix of City ID Inventories

		Los Angeles	Chicago	Oakland
Financial Incentives				
Industrial Development Bonds (IDBs)	Tax exempt, long term bond financing at low interest rates for new construction, renovation, and acquisition of assets.	X	X	X
Machinery and Equipment Sales Tax Exemption (for State Enterprise Zones)	A State Enterprise Zone business may claim a state sales and use tax credit; in addition, in California, firms may qualify for a 6% manufacturer's investment credit for qualified machinery.	X	X	X
New Markets Credit (for Federal Renewal Community Zones, Enhanced Enterprise Zones, or Empowerment Zones)	Credit against federal taxes of 5 to 6 percent of the amount invested in a distressed area.	X	X	
Commercial Revitalization Deduction (for Federal Renewal Community Zones)	A business constructing or rehabilitating commercial property can deduct a portion of the costs over a shorter amount of time.	X	X	n/a
Capital Gain Exclusion (for Federal Renewal Community Zones)	Zero Percent Capital Gains Rate for certain businesses operating in a Renewal Community, if the asset is acquired during the period of the RC designation and held for at least 5 years.	X	-	n/a
Section 179 Deduction (for Federal Renewal Community Zones or Empowerment Zones)	A business may expense up to \$35,000 of additional qualified property (equipment and machinery) purchased during the period of the RC or EZ designation.	X	-	-
Foreign Trade Zone	If site is designated a FTZ merchandise can be brought in duty-free.	X	-	-
Tax Increment Financing (TIF)	Sets property tax at a base amount and, as property values increase, all property tax growth above that amount can be used to fund redevelopment projects.	X	X	-
Special Services Area Designation (SSA)	Industrial businesses in a defined area can request a localized property tax levy to pay for enhanced services and programs in addition to those provided publicly.	-	X	-

		Los Angeles	Chicago	Oakland
Float Loan Program	Provides small loans up to 100% of project costs for new construction, renovation, and acquisition of assets.	-	X	-
City of Los Angeles Business Tax Benefits	A business tax waiver of \$500 for existing firms in Empowerment Zones and new firms to EZ pay only \$25 yearly for five years.	X	-	-
Organizational Assistance Programs				
Los Angeles Business Assistance Program	Assists companies in targeted sectors including FP to achieve expansion and market share.	X	-	-
Business Express	A special office in the City with its own referral phone number dedicated to working with businesses to solve their problems related to regulations, services, and business incentives. Also publishes the City's Business Resource Guide.	-	X	-
One Stop Capital Shop	Oakland's multi-service One Stop Capital Shop fuels small business start-up and expansion by providing business skills training, technical support, and lending referrals.	-	-	X
Business Incubators	Communications Technology Center provides strategic consulting. Oakland's Small Business Growth Center provides technical assistance in business development, marketing, cash flow analysis, and business principles.	-	-	X
Land Use Incentives				
Section 108 Loans (HUD funded only LA and Cleveland)	For large real estate based projects that will benefit low and moderate income people through job creation, job retention or the provision of goods and services.	X	-	-
Site Assistance	Department works with private real estate brokers to keep a list of potential sites and arranges visits for new and existing firms looking for different facilities.	-	X	-

		Los Angeles	Chicago	Oakland
Property Tax Incentives (Class6b)	Reduced level of assessment for up to 12 years with a possibility of renewal for another 10. For firms that have substantially rehabbed an existing facility or reoccupied an abandoned one. Reductions are as much as half the standard industrial assessment level	-	X	-
Industrial Street and Alley Vacation Program	Conveys ownership of underutilized streets and alleys to adjacent industrial firms to expand facilities, create parking or loading areas, or improve security. Only used if the vacating of ownership will not adversely affect any other nearby firms.	-	X	-
Business Infrastructure Assistance	Provides 50% of costs for physical improvement projects completed in partnership with local firms. Includes fixing gutters, curbs, traffic signals, light poles, etc.	-	X	-
Commercial Property Façade Improvement Program	Free architectural assistance and 50% matching grants are available to property and business owners for eligible projects	-	-	X
Workforce Development Programs				
Renewal Community Employment Credit	A 15% wage credit may be used for the first \$10,000 of wages paid to a renewal community resident working for a renewal community business.	X	X	n/a
Work Opportunity Tax Credit (for Federal Renewal Community Zones, Enhanced Enterprise Zones, or Empowerment Zones)	\$2,400 wage credit each employee hired among targeted groups with special employment needs (such as populations with high unemployment rates).	X	X	X
Empowerment Zone Wage Credit	A 20% wage credit for the first \$15,000 of wages paid to an Empowerment Zone resident who works in the EZ	X	X	-

		Los Angeles	Chicago	Oakland
Utility Incentives				
Los Angeles Dept. of Water and Power (DWP) Incentives	DWP offers a special 5 year electrical rate reduction for new and expanding businesses located in the City's state enterprise zones or federal empowerment zones.	X	-	-
Utility Tax Exemption	Utility tax exemptions for businesses operating in State Enterprise Zone	-	X	
Environmental Programs				
Brownfields Reduction	Site assistance, soil remediation cost discounts, clean-up assistance, or testing assistance to develop brownfield sites.	X	X	X

Sources:

U.S. Department of Housing and Urban Development. "Tax Incentive Matrix for Urban and Rural EZs /ECs /RCs." <<http://www.hud.gov/offices/cpd/economicdevelopment/news/taxincentives092001.pdf>>;

City of Los Angeles Mayor's Office Of Economic Development; LA Housing and Business Team. "Special Zones." <<http://www.lacity.org/mayor/moed/labt/incentive.htm#Enter>>;

City of Chicago Department of Planning and Development.

<<http://www.ci.chi.il.us/PlanAndDevelop>>;

City of Oakland Community and Economic Development Agency, "Target Industry/Areas."

<<http://www.business2oakland.com/main/businesstaxincentiveprogram.htm>>.

Problems & Recommendations

Based on our analysis of what policies LA is missing and our interviews with local firms, we identified two major categories of problems with the City's current inventory of policies: inadequate public outreach and access and a shortage of and insufficient information about industrially zoned land. These problems do not appear to be sector-specific to food processors. Rather, the issues cited by the firms we interviewed focused on more general problems associated with conducting business in the City. The following chapters describe in greater detail the impact of the gaps in LA's industrial development strategy, specifically the scope of the problems, evidence of their effects on FP firms, and recommendations for their mitigation.

Chapter V

Public Outreach and Access are Inadequate and Hamper Firms Ability to Interact with the City

There are three primary ways by which a city can affect the livelihood and health of its manufacturing base. First, cities offer a portfolio of business incentives in the form of tax breaks, subsidies, and other programs. Second, cities impose different types of taxes and regulations on local firms, such as rules governing environmental, health, and social standards. Third, cities provide basic services through their departments of water, power, public works, and other municipal agencies.

Given the complex and multi-layered relationship that exists between cities and firms, it is essential that lines of communication are strong, clear, and unimpeded; otherwise tasks of fundamental importance to both the firm and the local government will be overlooked or performed sub-optimally. Unfortunately, we discovered that the relationship between the City of LA and the FP industry is not as healthy as possible. In particular, information does not flow easily out of the City, and an opaque bureaucratic structure prevents firms from easily obtaining that information on their own initiative. Taken together, this creates a loosely defined, confused, and often frustrating relationship that constrains firms' abilities to do business in the City.

Importantly, nearly every local firm we spoke with had some issues with informational flows into and out of the City. It is a pervasive problem in need of a meaningful solution. This section considers both the problems of informational outreach to firms and accessibility of information through the City's bureaucracy, and then presents some concrete steps the City can take to alleviate these problems.

Problem A: The Need to Improve Public Outreach

Some firms have successfully found and utilized city incentive programs. One owner discussed working with the City to purchase four neighboring parcels of land for plant expansion and receiving financial support for the relocation expenses of the current tenants.⁴² Another discussed hiring a delivery driver using an employer wage credit, and found the experience successful.⁴³

Unfortunately, this was not the experience of most firms. In spite of a few successes, the extensive inventory of available public policies for industrial development, and the devotion of CDD to local businesses, we found that the majority of the firms we spoke with were not aware of the industrial programs offered. In our conversations with FP owners and managers, we presented LA's inventory of industrial policies, discussed each one individually, and found the majority of policies were not familiar to the manager. When asked about LA's ID policies, the managers were on average only aware of 3-4 out of 13. However, most firms voiced interest in many of the policies they had never heard of and wanted to know more because they thought these programs would be helpful. Therefore, while the knowledge of current programs is low, the interest in and enthusiasm for the programs are great. This implies that better outreach and information presentations designed to inform firms of their available policy options can substantially increase program utilization and the attainment of the benefits they offer.

Most information about incentive programs does not come through the City but from supportive professional services, and in some cases through labor representatives.⁴⁴ Some managers mentioned they learned of tax credit and incentive programs through their lawyers or accountants, who are more aware of available public support. A few mentioned they learned about existing programs from business gatherings, such as the Chinese Chamber of Commerce, or from national industry associations, such as the National Food Processor's Association or National Meat Association.

⁴² Interview, February 26, 2004.

⁴³ Interview, February 17, 2004.

⁴⁴ Interview, March 22, 2004

One major reason for this dearth of information from the City is that the CDD, the agency charged with the majority of marketing duties, struggles to find the budget to actively promote City programs.⁴⁵ The five person marketing staff is primarily devoted to State programs and can only use leftover time and creative budgeting to market City and Federal policies.⁴⁶ As a result, local programs are often overlooked. For example, CDD publishes a booklet of economic development incentives each year. However, due to high printing costs, it can only distribute a few to the Mayor's office, council offices, and the Chamber of Commerce. These few copies are not widely circulated; no firm that we spoke with had seen or used the economic development incentive booklet.

Compounding the problem of lack of City information, other cities and states are eagerly courting industrial firms by aggressively marketing information about their own incentive programs. Managers mentioned regional cities, such as San Bernadino, offering attractive relocation packages. Others revealed conversations with states such as Arizona and Nevada, who were bringing forward tax and relocation incentives to entice firms to leave California. Managers expressed hesitation to move simply because of the enormous expense to relocate millions of dollars of plant equipment and personnel, but they believed in the next 10-20 years they would have to expand and are finding such relocation offers increasingly alluring. Most have heard no counterbalancing offers or information from LA. In fact, most firms rarely ever have the opportunity to engage LA officials. Only one representative from a local firm mentioned regular contact with government officials, and they were representatives of the LA County Board of Supervisors in the 1970s.⁴⁷ This effort was greatly appreciated as it offered the opportunity to directly communicate with public officials and showed a level of interest not since replicated.

Comparative Analysis

This issue is not unique to Los Angeles alone. One large candy producer formerly in Chicago and now operating largely in South America mentioned that it was only after they announced their plans to depart that the City took notice and attempted to cobble together a package to

⁴⁵ Interview, February 12, 2004.

⁴⁶ Interview, February 12, 2004

⁴⁷ Interview, February 26, 2004.

entice them to stay.⁴⁸ Still, there is evidence that Chicago's marketing activities are more successful than those of LA. The City promotes its policies through presentations to Industry Councils, hoping to mobilize Council leaders with information to spread to their constituents. The City also uses public service announcements to publicize programs and reach small to medium size businesses. As a result of these substantial outreach activities, Chicago firms tended to be more aware than LA firms of the available incentive options and more likely to cite City officials or City marketing materials as a source of information. Oakland firms were more in line with their LA counterparts, and, in fact, awareness of incentive programs appeared even lower in Oakland. The majority of firms we interviewed were aware of less than half of Oakland's policies, and one firm was not aware of a single incentive program.

Problem B: FP Firms Cannot Easily Gain Access to City Bureaucracy

At the same time that many FP firms find that information from LA is not readily available, they also have difficulty penetrating the City's bureaucracy to obtain information on their own. As a consequence, they are often confused or frustrated in their attempts to comply with regulatory processes, receive City services, or ask questions and receive help regarding incentive options and other issues.

Most interviewees cited access to the City as a major problem. An industry leader who recently moved his company to LA's neighbor, the City of Vernon, claimed that there was a "night and day" difference between working with Vernon and LA City Halls. He noted that all the departments and the utilities in Vernon are more accessible than in Los Angeles. Vernon officials return phone calls and e-mails at a quicker rate and they have open counter hours every day. He also felt that paperwork and permits could be processed faster in Vernon than Los Angeles.⁴⁹ A second firm, an LA candy manufacturer, indicated that its need for help navigating the City's agencies and departments is so great that it would be willing to pay for such help.⁵⁰ An economic development expert who recently interviewed a number of FP firms also found that most firms who had contact with the City found it difficult to penetrate the bureaucracy. She

⁴⁸ Interview, February 10, 2004.

⁴⁹ Interview, February 9, 2004.

⁵⁰ Interview, March 11, 2004

discovered that firms were often referred to multiple city officials and agencies and did not always receive follow-up responses to their questions.⁵¹

This is not surprising given the fragmented nature of City business services. In the conduct of normal operations, FP firms may be required to interact with at least nine different City departments.⁵² Figure 4 displays the many departments with which a firm interacts.

Figure 4
Public Entities with Responsibility for FP Business Services



Source: www.calgold.ca.gov

⁵¹ Interview, February 13, 2004.

⁵² State of California Environmental Protection Agency. "CALgold Business Permits Made Simple." <www.calgold.ca.gov>.

In addition, each of these departments contains its own subsectors and divisions, further complicating a firm's search for information and answers. At MOED, for example, a firm may have to speak with multiple staff representatives based on its industry and its geographic location within the City (See Appendix B for a list of public entities at all levels of government holding jurisdiction over FP business services).

Comparative Analysis

Oakland and Chicago have both established city bureaucracy structures to address and alleviate problems with access to city services. Oakland's Community and Economic Development Agency has allocated a staff member to each of its ten target industries.⁵³ The staff representative fields phone calls directly from industries and acts as a project manager for industry questions. Oakland also offers a One Stop Capital Shop, a public office designed to facilitate business start-ups. Chicago developed a Business Express Office ten years ago to handle the hundreds of telephone calls they receive each week from industry representatives. The office has its own referral phone number and a public counter service devoted to working with businesses to solve problems and answer questions relating to regulations, services and business incentives. To enhance consistency within City Hall, the person at Business Express who answers a business' call becomes their project manager and point person. This ensures that the business can contact the same person with questions and problems and prevents the business from becoming lost in the shuffle of city bureaucracy. The City markets Business Express through presentations and advertises it on the radio and in local media. According to Chicago city officials, the office is extremely popular.⁵⁴

Based on our interviews with firms, access appears to be less of an issue in Oakland and Chicago than in LA, primarily because of streamlined business service centers. Most of our Oakland firms had no complaints about access to city resources, and one firm told us that their easy relations with the City's One Stop Capital Shop was the major determining factor in their decision to locate in Oakland.⁵⁵ Chicago had similar results. Four out of seven firm

⁵³ City of Oakland Community and Economic Development Agency. "Target Industry Areas." <http://www.business2oakland.com/main/businessstaxincentiveprogram.htm>.

⁵⁴ Interview, February 18, 2004.

⁵⁵ Interview, March 1, 2004.

respondents had used the Business Express Office and found it to be quite helpful. One candy manufacturer told us that Business Express helped him quickly get permits and paperwork processed that used to take several hours to handle, and a local coffee company related his belief that the City will bend over backward to help its firm through both the public counter and occasional City Hall-sponsored meetings.⁵⁶ While firms still had complaints about their relationships with the Chicago government, no firm mentioned access as an impediment to their business.

⁵⁶ Interview, March 3, 2004; Interview, February 27, 2004.

Recommendations

Given the lack of knowledge of current programs and the difficulty of communicating with public officials, there is a tremendous need for additional City efforts at outreach and for improvement of firms' access to City departments and agencies. Within this context, we recommend the following multi-pronged approach:

1. Develop a comprehensive marketing strategy.

It is critical to better market and communicate all existing policies to firms in the City. To do so, the City needs to take a comprehensive approach consisting of several different elements.

Target Funding For Marketing

The creation of a reliable committed funding source explicitly targeted for

City and Federal industrial policy marketing would assist efforts to attract and retain food processors by reducing the ad hoc nature of current marketing efforts. In addition, it would benefit all industries in the City, not only the FP sector. CDD should seek, therefore, a line item in its budget specifically for marketing activities.

Increase Availability of Informational Resources

If funding could be secured, possibly through the marketing line item, it would be beneficial to create a thinner version of the economic development incentive booklet to distribute more widely to regional firms. It should be available at more locations, especially the offices of the Department of Finance and Department of Building and Safety, where new firms must go to register for permits and licenses. CDD is currently designing a brochure summarizing available incentive policies that may be a sufficient marketing tool.

To improve public outreach and access LA should:

- Develop a marketing strategy that targets start-ups, established firms, and the professional organizations that support firms
- Create a one-stop public counter for business services
- Use public support to effectively mobilize FIBR, the FP industry association, and
- Consider a long-term strategy of consolidating economic development functions into one office

Another extremely useful and fairly cost effective way to distribute this information is to create an online clearinghouse of incentive programs. No such single website currently exists, but, given the high proportion of firms who use the internet as a source of information about City programs and actions, it is likely that it would be extremely popular and beneficial. Uploading the information onto the website would be a significant upfront cost, but maintaining the site and updating the information are relatively inexpensive, and the impact it would likely have justifies the expense. CDTech is currently in talks with the City to create a website featuring certain components of City-sponsored information, including a benefit calculator to determine the financial impact of various incentive programs. While this website is not comprehensive enough to serve the City's full needs, it is a step in the right direction and may eventually serve as a starting point for the full service website we recommend.

Target Outreach to Those Who Can Best Use the Information

Given that firms rely so heavily on professional service providers as information intermediaries, it may be more efficient to target outreach activities to the service providers rather than directly to the firms themselves. The methods for accomplishing this are fairly simple. Certified public accountants (CPAs), for example, must complete a certain number of hours of professional development education each year in order to maintain their certification. The City could work with the California Society of CPAs to include attendance at presentations on local economic development incentives as qualifying coursework for this purpose.

Labor unions are also well versed in city economic development policies because they share a common goal of job creation. To that end, it would behoove the City to share information about new and existing programs with labor representatives, who interact with both workers and firm managers.

It is also logical to target the marketing strategy to start-ups and small businesses, who often are in more need of assistance than larger, well established firms. The majority of firms in the FP industry are small and medium sized businesses, and they provide valuable contributions to the City in the form of innovation, flexibility, and workforce development. However, they are also uniquely vulnerable to financial difficulties, particularly in their first year of operation, and

several FP firms mentioned their desire for greater support from City Hall during that precarious time. There are existing incentives in the City's inventory that are designed to provide this support—the Section 179 deduction, for example, allows new businesses to deduct from their tax bill the costs of qualifying property during its first year of use—but few firms are aware of these opportunities. By working with the Mayor's Office of Small Business Services and developing seamless access to small food processors, greater information could tip the balance between a successful or failed first year of operation.

One potential method for accomplishing this task is to track firms who have recently applied for their first business license, indicating the opening of a new venture. For the first two years following the issuance of the license, the City should contact them every six months with information about programs and incentives for which they may qualify. This type of individualized attention is impractical for the City to provide to all of its firms, but by concentrating resources where they are most likely to have an impact, the City can reap a large reward for its investment.

It may also be valuable to target a special marketing message to the City's older, core group of firms. We spoke with several companies who have been in LA for decades, and they expressed frustration with the City's emphasis on new businesses and creation of programs designed to benefit firms just moving into LA. As long time taxpayers and employers, they want assurance that the City still cares about their needs. The marketing strategy, therefore, should include an element reaching out to core industrial firms and emphasizing the elements of the City's incentive package that apply to them.

2. Create a one-stop public counter for business services.

The City should develop a public counter system similar to Chicago's successful Business Express Office. According to one economic development expert, LA piloted a one stop permit desk in the mid-1990s. Businesses were very receptive to the counter and believed it to be helpful, but it was later closed for unclear reasons. A Business Express Office, or something similar, would alleviate the difficulty that firms have in penetrating the City's bureaucracy. Businesses would be able to call one telephone number for their industry-related questions.

Business Express representatives would be fully informed about all of the different rules and regulations, incentive programs, and services relevant to firms, and would help businesses to navigate the City's various departments and agencies, particularly the nine listed above, by connecting them directly with the appropriate individuals and possibly providing necessary paperwork and forms ahead of time. It might also be possible to include some very basic information and referrals for business services outside of the City's jurisdiction, including a number of those listed in Appendix B. We would also recommend that the counter service representative who helps a firm during its first contact with the counter remain that firm's representative for future visits or calls; this ensures that firms have a concrete point of contact to approach with follow up questions or concerns and will help them to create an ongoing relationship with the City.

3. Use public support to more effectively mobilize FIBR.

The Food Industry Business Roundtable (FIBR) is a local association for food processors. Originally started by CDTEch following the 1992 civil unrest, FIBR's mission is to promote the growth of the ethnic and specialty FP industry in Southern California.⁵⁷ In recent years, leaders of FIBR have noticed a decline in interest and attendance among members. One founding member believes this is because of a lack of unifying mission. FIBR effectively rallied around specific state and federal pending legislation impacting the FP industry, mainly certain sanitation and other regulatory requirements, when the association was first created. Recently, the lack of a motivational cause has left FIBR moribund. Members believe there are a few pieces of upcoming legislation, mostly surrounding sanitation issues that may motivate a reconvening of the group. However, they admit the group has not effectively reached out to new populations of business owners and the organization is stagnant due to the lack of new voices and opinions.

The revitalization of FIBR is an essential step toward enhancing the relationship between the City and FP firms. Industry associations provide a single, localized point of contact between City officials and businesses, making it easier to transmit information between the two groups. If FIBR became more active, the City could educate association representatives on the available

⁵⁷ Food Industry Business Roundtable. <<http://www.fibr.info>>.

incentive packages, and these representatives could, in turn, pass the information on to each of FIBR's constituent firms. Conversely, FIBR could collect information from its members about concerns and problems the industry is experiencing and pass that information on to policymakers who can address those concerns.

The City can actively encourage the revitalization of FIBR and even help to initiate the process. An initial series of roundtable meetings between the Mayor's Office and FIBR's core membership will signal the City's interest in and commitment to an active dialogue with the industry. The new opportunity to interact with high level City officials will provide an incentive for firms to mobilize and participate. As those opportunities continue over time, that participation is likely to become more regular and institutionalized. Eventually, FIBR will be strong enough to take the initiative in planning these meetings on its own, and the City will have gained an active partner in its outreach efforts.

While we recognize that it will be challenging for smaller firms to participate given their limited human resources, there are ways to overcome these obstacles, including e-mailing all members minutes of meetings and encouraging firms to share the responsibility of attending.

4. Reorganize and consolidate economic development functions into one office.

The final recommendation is an option to consider over the long-term. Currently, there are three local agencies or departments, MOED, the Department of Water and Power, and CDD that handle various elements of the City's economic development agenda. While the public counter will streamline bureaucracy from the firm's point of view, consolidating the economic development functions of these three offices into one department or office will provide more coordination and consistency in the City's economic development programs. One interviewee noted that this would help cut down on bureaucracy and make processes move faster.⁵⁸ However, she stated that there will be costs associated with consolidating agency functions and potential turf fights among departments over their areas of jurisdiction. Further, there is no obvious destination for the new office among existing agencies, and developing a new agency would only add to the bureaucracy. Given that a major reorganization would be undoubtedly

⁵⁸ Interview, February 13, 2004.

expensive and the location for the centralized office is unknown, this is a recommendation that the City should look to in the future and not necessarily address immediately.

Chapter VI

The Shortage of and Insufficient Information about Industrially Zoned Land

Given the already problematic high cost of land, there is a need for greater assistance targeted to new and well-established firms in finding and acquiring parcels for their use. The benefits associated with doing business here, such as a sizable labor pool, accessibility to multiple nodes of transportation, and the efficiencies derived from being nearby to suppliers and customers, currently outweigh the high land costs. However, the tightness of the real estate market in the LA region ensures that useable vacant land is scarce and that costs are well above the national average. The sheer enormity of the number of interests—industrial, commercial, and residential—competing for access to a finite land supply have a considerable impact on FP firms and their attempts to locate or expand within the City. Unfortunately, the price of land is becoming so prohibitive that the costs of locating a business or trying to purchase land to expand are beginning to overshadow the aforementioned benefits.

We recognize there is little that the IDPI can practically accomplish to affect supply or price changes in the market; however, there is a useful role in addressing two highly related concerns that emerged during the course of our research: 1) lack of awareness of land available for purchase and 2) problems arising from the indiscriminant rezoning of industrial land.

Problem A: FP firms are often not aware of what land is available for purchase.

By its own admission, the City does not currently maintain a record of available industrial land in LA. IDPI's Phase I investigation uncovered some sources who maintain data on unutilized or vacant industrial land in LA—the County Assessor indicates that as much as 1,786 acres of industrial land in the City is currently vacant and DWP records unutilized property by looking for “zero consumption” rates on water and electricity accounts—but this provides only a snapshot of the amounts of such land.⁵⁹ It does not provide information on the specific location,

⁵⁹ City of Los Angeles Industrial Development Policy Initiative. “Phase I Draft Report.”

size, or features of these parcels, which is what firms need to know when they are shopping for new facilities.

Relying solely on private initiative to locate appropriate land parcels is a risky venture. LA is a large city with an extraordinarily diverse set of land plots. A firm seeking to purchase one of those plots needs a focused method of search in order to have any chance of finding something that meets their needs; without such a method, the entire process is heavily dependent on luck and timing. Despite this, all of our firms reported to us that they did their real estate shopping on their own, with occasional help from commercial brokers. Many were subsequently unsuccessful in finding and purchasing a parcel. One noodle firm that relocated out of LA several years ago, for example, left because the only two sites its manager identified as being appropriate were being rezoned for other uses.⁶⁰ With 1,786 acres of vacant industrial land, it is likely that there were more than just two sites available to him, but he never discovered other options. LA then lost the forty jobs created by his firm and all of its associated tax revenue.

At the same time that LA firms are experiencing difficulties locating available land, neighboring cities are implementing programs designed to poach firms from LA. One LA tortilla company reported that representatives from Vernon visit every few months with newly updated lists of industrial land available for purchase in Vernon and make a pitch for the firm's relocation.⁶¹ While LA may not be able to manage a program requiring this kind of extensive outreach, the existence of such a competing program is all the more reason that the City has to take any and all possible steps to facilitate firms' knowledge of available LA real estate.

Comparative Analysis

While Oakland has no official site assistance program, Chicago's is both well developed and well liked. The City's Department of Planning and Development (DPD) maintains an online databank of land it knows to be available for purchase, and firms can call DPD or the Business Express office to get personal assistance provided by a partnership of department specialists and private industrial real estate brokers. Firms leave DPD with a computer generated list of sites

Section 10A.

⁶⁰ Interview, February 20, 2004.

⁶¹ Interview, February 27, 2004.

meeting their locational, square footage, configuration, and access needs, and can have the partnering brokers arrange visits for them. DPD reports that site assistance is one of its more popular programs, with calls constantly coming in from firms both within and outside of Chicago.⁶²

This was confirmed by our interviews with Chicago firms. Most companies who had not used the site assistance program still identified it as a useful tool and a valuable resource; several indicated that they would at least consider making use of this program if and when they decide to expand or relocate. Of those that had direct experience with the site assistance program, the feedback was entirely positive. One manufacturer of Greek food products used the City to help identify potential parcels for its last big expansion two years ago and was very happy with the results. He believes site assistance is one of the most important programs the City offers.⁶³ Another of our interviewees, a hot dog company, is actually using the site assistance program now and receives weekly updates from the City on available parcels of land and their characteristics. The owner has not yet selected a final site for his new facility, but he has been extensively checking into the parcels referred by DPD.⁶⁴

Problem B: Zoning changes prevent FP firms from acquiring necessary land or making important upgrades and changes to existing facilities.

With land at such a premium all across Southern California, industrial firms must often compete directly with other interests for access to available parcels. Commercial and residential developers are also looking to expand their operations across LA, and, with little available land, they have come to target industrial property as a potential source of the space they need to pursue their own goals. Industrial land is particularly attractive to these outside interests because it can often be purchased at a value lower than the land will hold once it has been usefully developed for other uses. Retail uses of industrial land, for example, can increase the average assessed value of the property by over 100%.⁶⁵

⁶² Interview, February 28, 2004.

⁶³ Interview, March 10, 2004.

⁶⁴ Interview, March 9, 2004.

⁶⁵ City of Los Angeles Industrial Development Policy Initiative. "Phase I Draft Report." Section 10A.

The zoning code in LA is flexible enough that much industrially zoned land is converted to non-industrial uses: of the estimated 19,047 acres of industrially zoned land in the City, approximately 25% has been converted to non-industrial uses.⁶⁶ This is accomplished by a four step process, involving a written application to the LA Department of Planning, an evaluation by a Planning specialist, hearings by an Area Planning Commission or the City Planning Commission, and consideration by the City Council and Mayor. At each stage, the applicant must demonstrate that a change in zoning serves a useful purpose, is in conformity with the City's general plan, and makes use of "good planning" principles.

Approved zoning change requests represent a direct loss to the industrial community, including the sizable FP sector, of space for their own businesses. Land that is rezoned for residential or commercial purposes is never returned to industrial use, so the loss is permanent. It also creates ongoing problems for FP firms located near newly created residential or commercial zones, whose inhabitants dislike the noise and odors inherent in FP and pressure the City and the firms to change their mode of operation.

The National Food Processor's Association and a number of our LA area participants identified zoning as major concern. One of our survey respondents, the previously described noodle company in search of new parcels, was prevented from purchasing either of its identified land options because City Council members were seeking to rezone the property for open space and park use.⁶⁷ Another respondent, an LA tortilla company, described how changes in the zoning around its building prevented it from upgrading or changing its facilities by adding needed loading docks or additional storage space.⁶⁸ In the first case, the firm was driven directly out of LA and into neighboring El Monte; in the second, the firm experienced a loss of opportunity for increased efficiencies and production. Neither is a good outcome for the firms or for LA.

Comparative Analysis

Chicago has also faced a difficult zoning problem, and, in response, initiated a unique solution to help protect industrially zoned land. Like LA, Chicago has a competitive real estate market.

⁶⁶ Ibid.

⁶⁷ Interview, February 20, 2004.

⁶⁸ Interview, February 27, 2004.

DPD officials receive frequent requests for changes to residential zoning from industrial zones, many of which are subsequently approved.⁶⁹ The hot dog company we spoke with, for example, has been heavily impacted by zoning changes that gentrified the neighborhood through residential construction. The increase in land value for its potential as a residential tract and the constant struggles with neighbors who dislike industrial activity near their homes are both driving this firm to consider relocation into a different zone.⁷⁰ In recognition that these actions, while promoting the useful and necessary purpose of bringing often vacant land into productive use as housing or commercial ventures, are harmful to the City's industrial base, DPD and Mayor Daley have undertaken a new zoning reform initiative. Their new program will lengthen the process for industrial to non-industrial zoning changes by introducing an additional hearing step before the Chicago City Council reviews proposals. Further, it will increase the number of Planned Manufacturing Districts (PMDs), industrially zoned areas with the highest level of zoning protection, from 5 to 10 or more. The impact of this reform initiative will not be determined until it has been in place for several years.

⁶⁹ Interview, February 18, 2004.

⁷⁰ Interview, March 9, 2004.

Recommendations

To better help local firms deal with problems related to land use, we recommend that the City institute two new programs: a site assistance program and a plan to preserve and protect industrially zoned land.

1. Develop a Site Assistance Program

The City should create a site assistance program similar to Chicago's. A version of this program existed under the Riordan Administration, housed within the LA Business Team, but, according to a private broker, only highlighted "key" parcels and was not a comprehensive holding of all available parcels.⁷¹ Currently, the General Services

To provide firms with the tools needed to locate and acquire land parcels, the City should:

- Develop a site assistance program
- Increase zoning protection for industrial parcels

Department is compiling a list of 2,400 unused parcels of City-owned land for the Mayor's consideration.⁷² This list represents a good start, but we think it must ultimately include private holdings as well. To that end, we recommend that a new, comprehensive site assistance program be run by the Community Development Department's Industrial and Commercial Development Division (ICD). CDD has the most institutional knowledge of City-owned land and it already controls many of the City's incentive programs for businesses.

To get started, CDD should issue a Request for Proposals for industrial real estate brokers interested in participating in a partnership with the City to maintain a master list of available land. The list should include not only each parcel's exact location, but also its major site characteristics, including square footage, proximity to freeways, rail lines or other transport corridors, and any unique built-in industrial features such as special loading docks or freezer facilities. Firms calling either the agency or any newly created business information office (see above recommendations on City bureaucracy) should be matched up with a participating broker who can search available parcels by the specific needs of each individual firm and provide the companies with a personalized and comprehensive list of possible parcels.

⁷¹ Interview, March 16, 2004

⁷² Interview, March 19, 2004

Funding requirements for this program should be low, with the brokers receiving their payment from the firms rather than the City, making it much more feasible given the current fiscal crisis in California's municipal jurisdictions. Moreover, gaining access to this kind of information should be relatively straightforward because listings of available parcels are already publicly available through brokers websites; it just needs to be centralized into one master list.

2. Increase Zoning Protection for Industrial Parcels

LA needs to institute a higher level of zoning protection for its industrial districts through a set-aside of certain industrial areas similar to the PMD program. To that end, we recommend that MOED's Industrial Development Policy Initiative final report include a comprehensive profile of the types of industrial users who are active in the City and a comparison of this profile to the current map of industrially zoned land. Using this information, MOED should then prioritize which areas of the City are best suited for the type of users out there and are therefore most important to protect. For example, a few acres of industrial land on the west side are not that important to LA because most of its industrial manufacturers would not find that location feasible from a cost perspective or desirable because of all of the constraints inherent in trying to manufacture in the middle of an upscale neighborhood. The land assessment could consider those acres candidates for rezoning. They would presumably also determine, however, that large tracts of industrial land downtown or southeast of downtown are not potential candidates for rezoning because their characteristics make them desirable and feasible locations for industrial users.⁷³

Once MOED has determined which areas could potentially be rezoned and which areas should be off-limits, they need to find a way to codify it. We recommend that MOED either a) advocate the passage of an ordinance clearly stating the City's rezoning priorities, or b) request that the change be written into the City's general plan, making it impossible for a requested zoning change in a priority industrial area to be shown in compliance with the general plan as required.

We recognize that all zoning changes are inherently political and it is impossible to create eternally enduring change. Fluctuations in the political environment can always change past

⁷³ Interview, March 2, 2004

priorities and actions. Even so, we believe that a comprehensive analysis of where the major industrial players are and making changes accordingly to the general plan will help preserve enough industrial land to encourage some firms to expand within LA as opposed to leaving the City. Moreover, if the City can successfully mobilize FIBR, they will have a vested interest in preserving industrially zoned land located in and around downtown. Eventually, they will have the capacity to act as watchdogs and advocates for land changes that help their industry and manufacturing in general.

Chapter VII

A Number of Other Issues Posing Problems for the FP Industry--Areas for Further Research

City and industry reports and the firms we interviewed also identified worker's compensation, physical infrastructure, utility capacity, and the globalization of trade as additional and highly significant issues affecting their ability to do business in Los Angeles. These findings complement the findings from sectoral analyses of the apparel, furniture, tourism, international trade, jewelry, and entertainment industries in LA, demonstrating that these issues are of extreme importance to many local firms.⁷⁴ We recognize that policies affecting these issues are largely determined at the state and federal level or are driven by international market forces. Even so, it is important that MOED is aware of the scope and nature of these issues and gives them due consideration in the future.

Workers' Compensation

Throughout the state of California, workers' compensation costs are increasing at a rapid rate. These costs are straining the budgets of California employers, particularly in the manufacturing sector. Every firm that we interviewed listed worker's compensation as an issue affecting their ability to both hire workers and remain competitive with firms outside California. One poultry processing CEO specifically mentioned that he is not hiring as many workers as he wishes simply because his workers' compensation costs are too high. The additional increase to his premiums would be higher than the value of the additional worker. He is compelled to increase his capital investments rather than labor because of the issue.⁷⁵

We recognize that decisions regarding worker's compensation are made at the state level. However, the City can lobby in Sacramento for system reform and play a role in helping make local workplaces safer by acting as a facilitator between firm owners and employees. A common refrain from our interviewees was that the City needs to be aware of the effects of rising costs on local businesses. They requested that the City work with them to make their concerns heard in Sacramento. In addition, a member of the labor community acknowledged that while fraud is one

⁷⁴ Allen J. Scott, Michael Storper, and the LAEDC have completed numerous analyses of various LA industries.

⁷⁵ Interview, March 4, 2004.

problem driving higher costs, unsafe working conditions are also causing costs to rise, hurting both firms and workers.⁷⁶ Given a shared interest in lowering costs and keeping firms and jobs in California, there is an opportunity for teams of managers and employees to work together to identify and fix safety problems on a plant by plant basis. To help local firms deal with skyrocketing costs, the City could recommend such collaborations and act as a neutral arbitrator during initial team meetings.

Infrastructure

Infrastructure related issues, primarily traffic, congestion, narrow streets, lack of parking, and impeded access to the airport, ports, and freight highways, are a major area of concern for LA firms. In 2003, the Bureau of Engineering gave the City's overall infrastructure a C+ grade, and streets and highways were given a D+. Forty-four percent of the intersections studied had traffic flows rated D or F.⁷⁷ Given the complexity of this problem and the lack of an immediate solution, we recommend that MOED continue to work with other public and private entities to develop short and long term strategies for working with congestion and for bringing infrastructure to a level that meets current and future demand.

Inadequate Utility Capacity

FP firms are major utility consumers, particularly in terms of water and electricity. Water is not only an important ingredient in many products produced by food manufacturers, it is also essential to the operation of much of the necessary equipment and for maintaining appropriate sanitation standards around that equipment. Electricity is also of ever-increasing importance as automation takes over the industry and firms find themselves using much more power driven technology over longer hours. One seafood company interviewed spends between \$30,000-and \$40,000 a month on electricity.⁷⁸

The City's own infrastructure analysis showed that there is room for improvement in its water and power capacities; the electrical system received an overall grade of B, and the water system

⁷⁶ Interview, March 22, 2004.

⁷⁷ City of Los Angeles Industrial Development Policy Initiative. "Work Plan Summary." February 18, 2003. <<http://www.lacity.org/mayor/moed/idpi/idpiwps.pdf>>.

⁷⁸ Interview, March 9, 2004

was given a C.⁷⁹ The importance of this issue was summed up by an LA area noodle firm, who characterized the City's utilities infrastructure as "not equipped for manufacturing" and rated utilities infrastructure updating as the single most important action the City could take to help its FP firms.⁸⁰ With the high demand for utilities among the FP industry and the City's expressed need for improvement, we recommend that the City continue its efforts with the DWP to improve utility infrastructure in LA

Globalization of Trade

Although globalization has helped some firms by introducing new products and new customers to the LA market, many others are experiencing increased competition from overseas. With greater foreign competition (operating at lower costs), local firms are often not able to compete on price unless they operate in a niche market. The *From Harvest to Table* report found that gourmet foods have been growing at a steady clip of 7% per year for the past five years, and that many health-conscious consumers prefer fresh, slightly more expensive, domestically produced food products over cheaper, but less fresh, imported food products.⁸¹ Likewise, the firms we interviewed that manufacture specialty items are experiencing growth and are less concerned about overseas competition.⁸² One bakery owner said he sees frozen foods increasingly moving off shore, but there will always be customers who value freshness, and for that reason, he remains confident his business will continue to grow.⁸³ The one firm which voiced considerable concern over foreign competition manufactures prepared inexpensive Asian noodles and was wary of cheaper products coming from China.⁸⁴

Given that competition, particularly foreign competition, is an important issue for the FP industry in Los Angeles, we recommend further research of this issue. While we do not necessarily recommend a citywide strategy of picking winners, we recognize that the City needs to craft a strategy for identifying those firms with a higher likelihood of surviving increased competition. Based on preliminary findings within the FP industry and more conclusive findings

⁷⁹ City of Los Angeles Industrial Development Policy Initiative. "Phase I Draft Report." Section 10C.

⁸⁰ Interview, February 20, 2004.

⁸¹ Harvest, p. 25

⁸² Interview, February 26, 2004

⁸³ Interview, February 17, 2004

⁸⁴ Interview, February 20, 2004

in other studies, we suspect that those subsectors of the FP industry that are sensitive to quality or freshness or offer products that meet a unique local demand will continue to remain and flourish in LA.

Chapter VIII

Conclusion

The FP industry feeds the region, the country, and the world with some of the highest quality food and beverages, seamlessly produced through a network of distributors, suppliers, and processors. Moreover, it employs close to 45,000 workers locally. Many subsectors of the industry are expected to grow, and because of local assets, many businesses will remain anchored to the area, continuing to provide good jobs at decent wages over the long-term. This report can serve as a roadmap for the implementation of a comprehensive ID strategy to stimulate growth and development of the FP sector in LA. Given its similarities to other manufacturing industries, policies directed toward the FP industry will benefit firms and workers across multiple industries throughout the City.

Many of the firms we spoke with would like the City to make LA a “friendlier” environment for business. We do not think trying to compete with other smaller cities on taxation or regulatory reduction is feasible or desirable; other cities will always be able to undercut LA on these terms. What the City can do, however, is make it easier for firms to locate or remain in LA. The City currently offers an extensive inventory of available assistance to firms, and this is an important first step. In order to build on its variety of economic development tools, the City should focus its efforts on making it easier for firms to access such offerings and increasing the amount of information available to firms about incentives, services, and land. Moreover, the City should reach out to firm owners, labor representatives within the industry, and professional support services and work together toward the common goal of stimulating economic development.

Developing an implementation strategy for our policy recommendations is outside the scope of our research. However, our recommendations largely focus on promoting and streamlining existing programs and processes rather than the wholesale creation of new initiatives. As such, the cost implications of our report are minimal. Given the current fiscal climate in both the State and the City, it is more cost effective to adjust and improve what the City already offers. It is our hope that the City incorporates our recommendations to achieve its ultimate goal of retaining and attracting firms.

Appendix A

Sampling Methodology

To ensure a representative sample of Food Processing firms in Los Angeles, Oakland, and Chicago, we used a combination of convenience and snowball sampling. We were especially concerned about interviewing those firms that were not on the City's radar, notably smaller firms and start-ups. We relied on snowball methods to discover these small firms because they were less likely to be on any City generated lists. To that end, we asked interviewees to recommend and introduce us to other industry leaders. We also looked for some critical cases, notably bakeries and tortilla factories as they represent the largest subsector in the LA cluster. Further, we sampled those firms that had helped start the first food industry association in LA and were considered knowledgeable of City policies by their peers and City economic development experts.

We encountered a number of challenges during data collection. First, we had a difficult time locating an accurate sample frame of LA FP firms. An economic development expert informed us that Dunn & Bradstreet maintains an up-to-date and comprehensive list, but financial restrictions prohibited us from attaining the list.⁸⁵ Instead, we relied on a number of different sources.

The most comprehensive list we used was housed in Reference USA, a business database of over 12 million US businesses. However, there were discrepancies with this sample. In the last few years, firms have been switching from the Standard Industry Code (SIC) classification system to the North American Industry Classification System (NAICS). Under the SIC system, FP is coded as 20, and under the NAICS system, FP is 311. However, entering the SIC code for LA returns 598 firms whereas entering 311 returns over 2,000 firms. We found similar discrepancies when we searched for Chicago and Oakland firms. NAICS always returned more firms, but with a higher level of error than the SIC system. For example, NAICS 311 returned a number of food distributors in addition to manufacturers.

⁸⁵ Interview, February 20, 2004.

We supplemented the Reference USA database with contacts provided to us by City officials and published lists from the *Los Angeles Business Times*. Notably, we used a list of women and minority owned businesses and a list of businesses that had applied for or received city assistance in the past.

Non response bias also created difficulties for our sampling process. The number of firms that never returned our calls or who stated they were too busy to be interviewed hovered around 50%. With more time and money, we may have been able to be more persistent and lower that rate. However, given our limited resources, we simply had to focus on those firms that a) answered the phone and b) agreed to be interviewed.

Appendix B

Public Entities With Responsibility for FP Business Services⁸⁶

Federal:

1. Internal Revenue Service: tax identification number and federal tax payments
2. Department of Agriculture: facility inspections

State:

1. Office of the Secretary of State: articles of incorporation, articles of organization, declaration of limited partnership, or declaration of sole proprietorship
2. Board of Equalization: seller's permit
3. Employment Development Division: employee identification numbers
4. Bureau of Weights and Measures: ongoing product and equipment inspections
5. Occupational Safety and Health Agency: Injury and Illness Prevention Plan, ongoing facility inspections
6. Department of Health Services: Processed Food Registration, ongoing facility inspections
7. Franchise Tax Board: state income tax registration and payments

County:

1. Registrar Recorder: fictitious business name registration
2. Health Department: Wholesale Food Processing License, Public Health Operation License, ongoing facility inspections
3. County Assessor: Business Personal Property Statement, county tax payments

City:

1. Office of Finance: City tax registration and tax payments
2. Office of the City Clerk: business licensing

⁸⁶ State of California Environmental Protection Agency. "CALgold Business Permits Made Simple." <www.calgold.ca.gov>.

3. Department of Building and Safety: construction permits and plan checks, signage permits, ongoing facility inspections
4. Department of Planning: conditional use permits, land use permits, zoning changes
5. Department of Water and Power: water and electrical services, economic development incentives and programs
6. Los Angeles Fire Department: Disclosure of Hazardous Substances, ongoing facility inspections
7. Bureau of Sanitation: Industrial Wastewater Discharge Permit, water, sewage, and solid waste services
8. Community Development Department: economic development incentives and programs
9. Mayor's Office of Economic Development: economic development incentives and programs, small business and minority/women owned business services

Appendix C

Firm Size and Real Estate Needs

Type of Firm	# of Employees	Real Estate Needs	Future Real Estate Needs
Other (Candy)	100	68,000 Sq. ft.	"Unsure"
Animal Slaughtering and Processing	70	18,000 sq. ft.	"Double"
Beverage/Tobacco	250	240,000 sq. ft.	"Out of state"
Bakery/Tortilla	150	n/a	"Same"
Animal Slaughtering and Processing	245	78,000 sq. ft	n/a
Bakery/Tortilla	100	12 acres	"Maybe more"
Bakery/Tortilla	45	"2 separate 15,000 sq. ft lots (not contiguous)"	"Contiguous bldgs; double in size"
Bakery/Tortilla	100	"3 facilities within 2-blocks of one another; want to consolidate"	"100,000-200,000 sq. ft., all contiguous with loading docks"
Bakery/Tortilla	320	"2 lots: 70,000 and 30,000 sq. ft."	"one 150,000-200,000 sq. ft building"
Animal Slaughtering and Processing	3	12,000 sq. ft.	"At least double"
Animal Slaughtering and Processing	n/a	100,000 sq. ft.	n/a
Animal Slaughtering and Processing	60	40,000 sq. ft.	"Probably double"
Animal Slaughtering and Processing	12	7,000 sq. ft.	"About the same"
Other (noodles)	40	"A parcel large enough to accommodate tractor trailers"	About the same
Animal Slaughtering and Processing	30	30,000 sq. ft.	About the same

Appendix D

Products and Suppliers for Food Processing in LA County

Type of Firm	Suppliers	Where Products go
Other (Candy)	"Peanuts come from 12 states, coffee comes from Brazil, sunflower seeds are from the Dakotas, sugar, corn syrup and butter are from local sources"	"Mostly within 11 Western states, and 5-8% of their stuff is exported to Korea, France, Italy, and Canada"
Animal Slaughtering and Processing	n/a	"All local deliveries"
Beverage/Tobacco	"Southern California, Philadelphia, New York, Brazil"	"Southern California"
Bakery/Tortilla	"Within the region. GM is in the Midwest, sesame seeds come from India and Mexico"	"Southwest US"
Animal Slaughtering and Processing	"Texas, Colorado, and Kansas"	"All over US"
Bakery/Tortilla	"California and the Mid-west"	"Southwestern US. Products are growing at a faster rate in the Mid-west, Southeast and Mexico."
Bakery/Tortilla	"Local"	"Locally, San Diego, and Camarillo"
Bakery/Tortilla	"Nationwide"	"Nationwide"
Bakery/Tortilla	"New Mexico, Iowa, Kansas, and Nebraska" Everything is milled in So. Cal."	"50% in Southern California, and 50% leave state and country"
Animal Slaughtering and Processing	"Primarily in LA or Vernon; within a 10-15 mile radius"	"Primarily in LA; 70% at site and 30% on outskirts"
Animal Slaughtering and Processing	"Southeast"	"Nationwide"
Animal Slaughtering and Processing	"Mostly in the Midwest"	"LA, to be distributed nationwide by others"
Animal Slaughtering and Processing	"Hanford, Fresno, Vernon, and LA"	"San Diego to San Francisco"
Other (noodles)	"Regional"	"Across the region, mostly to the San Gabriel Valley"
Animal Slaughtering and Processing	"Southern California"	"40 states"

Appendix E

Interview Guide

Part I: General Industry Questions

How long have you been in the FP industry?

How has the FP industry changed for you over the past 10 years? Can you provide examples (increased automation, technology, niche markets, growth)?

How do you feel about the **general** direction of the industry? Is it growing, staying flat, or declining? Why?

Are there policy specific reasons that explain those trends?

Have there been any major policy changes in Los Angeles that **helped** the FP industry locate/expand in Los Angeles?

Have there been any major policy changes in Los Angeles that **hurt** the FP industry's ability to locate/expand in Los Angeles?

Are you aware of any policy changes coming up in Los Angeles that will affect the FP industry?

What are the benefits to being in Los Angeles? What other cities are you aware of that offer similar advantages as Los Angeles?

Do you have experience operating in other cities?

If yes, how did they compare to Los Angeles?

Part II: Knowledge and Use of Industrial Policies

I'd now like to go through an inventory of specific policies that Los Angeles has and ask your opinion about them. Specifically, I'd like to know if you a) are aware of these policies, b) have you used them, and c) do you think they help businesses chose to locate or stay and expand in LA?

1. Employer wage credit - A 15% wage credit may be used for the first \$10,000 of wages paid to a renewal community resident working for a renewal community business.
2. Section 179 Deduction - A business can choose to deduct all or part of the cost of the qualifying property in the first year it is used.
3. Commercial Revitalize Reduction – A Renewal Community business constructing or rehabilitating commercial property can deduct a portion of the costs over a shorter amount of time.
4. Brownfields Reduction - Soil remediation costs may be deducted from taxes within the first year for property purchased 1/1/98-1/1/04.
5. New Markets Credit - A tax credit can be claimed for investing in a low-income community business.
6. Capital gain exclusion - Investors holding a qualified community asset more than 5 years will not have to include any capital gain from sale or exchange.
7. DWP - The DWP is offering a special 5 year electrical rate reduction for new and expanding businesses located in the City's state enterprise zones or federal EZ.
8. Work Opportunity Tax Credit - By hiring individuals from 8 targeted groups, businesses may claim federal tax credits.
9. Manufacturer's Investment Credit - An EZ business may claim the 8.25% sales and use tax credit in addition to the 6% manufacturer's investment credit for the same qualified machinery.
10. Foreign Trade Zone - If you import components or merchandise, you could save money by having your site designated a FTZ, meaning merchandise can be brought in duty-free.
11. Section 108 loans - For large real estate based projects that will benefit low and moderate income people through job creation, job retention or the provision of goods and services.
12. Industrial Development Bonds – IDBs offer tax taxable and tax exempt financing for commercial or industrial development through the issuance of municipal bonds or certificates of participation.
13. The Los Angeles Business Assistance Program – LABAP assists companies in targeted sectors including FP to achieve expansion and market share.

From this inventory of policies, which are the most important to your company?

Have you benefited from any other city policies that we did not list?

What can the City of LA do vs. state vs. country to encourage FP businesses to stay in LA?

Part III: Company Specific Information

I'd now like to ask you about your company's specific needs. The City is particularly interested in learning how it can support the real estate needs of businesses. We hope to provide them with some recommendations based on our findings.

What are your present real estate needs? Size? Do you require contiguous lots or do you operate in different, separated lots?

What will your space needs be in 5-10 years? Size? Contiguous?

If you plan to expand, do you think it will be within the same city domain or outside?

If not Los Angeles, where else would you locate and why?

What other needs do you have? (*prompt if needed: economic, workforce, networking opportunities, other*)

Finally, a few questions about the composition of your business...

Can you tell us a little about your product?

Where are your suppliers located?

Where do most of your products go geographically?

How many permanent employees in 2003?

How involved has your firm been in discussion with lawmakers and policymakers?

Are you involved in FIBR (Food Industry Business Roundtable)? If yes, how often do you meet? Are the meetings helpful? If no, why not?

How do you become aware of city/state policies impacting your firm?

Are there reports/articles/publications on the FP industry that you have found valuable?

Can you recommend other business leaders we should speak to within the industry?

Appendix F

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