

Rebuilding Communities One Site at a Time

by Rocky Delgadillo, City Attorney, Los Angeles

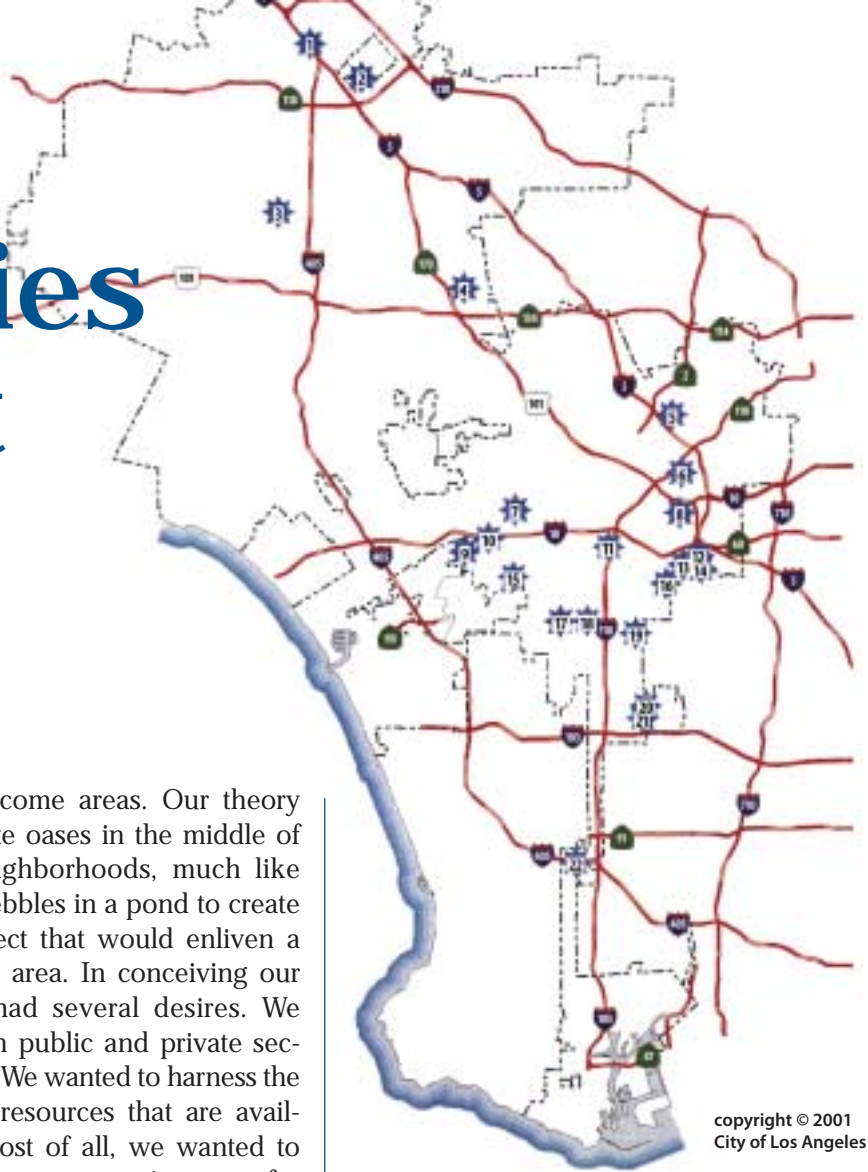
Since the Watts riots in 1965, business and civic leaders in Los Angeles have grappled with the complex issues that stem from poverty in this city. Studies, proposals, ideas and initiatives generated in Los Angeles, Sacramento and Washington have provided incremental and random improvements, but none comprehensive enough to alter the landscape. Following the 1992 civil unrest, many of the problems of the inner city were still facing us. The newest of the civic collaborations designed to “save the city” was Rebuild LA. It was there that I first saw the difficulty of one organization trying to solve many societal problems with limited resources.

In 1993, Los Angeles voters elected Richard Riordan for their mayor. When he recruited me to join his economic development staff, I jumped at the chance to work from city hall. Facing the existing challenges, now exacerbated by a major earthquake, I drew upon a lesson I had learned from my years at Rebuild LA: when confronted with complexity, begin solving problems by focusing on one piece at a time.

My colleagues and I conceived a way to address inner-city issues by building on large, blighted properties scattered throughout the city’s low- to

moderate-income areas. Our theory was to create oases in the middle of “desert” neighborhoods, much like dropping pebbles in a pond to create a ripple effect that would enliven a much larger area. In conceiving our plans, we had several desires. We wanted both public and private sector partners. We wanted to harness the vast public resources that are available. But most of all, we wanted to create an investment environment for entrepreneurs looking for opportunities to make money. Thus Genesis LA was born.

Genesis LA is an innovative and powerful economic development initiative that melds the best of the public and private sectors to tackle the tough challenges typically associated with developing long neglected inner-city areas. The initiative is directed by the Genesis LA Economic Growth Corporation, a not-for-profit organization, whose mission is to provide sources of gap financing with side-by-side investments to leverage public subsidies. Early on, we found only frustration in attempts to attract traditional investments to the inner city, but we held fast to the belief that there is money to be made in these densely populated, underserved areas. We also



copyright © 2001
City of Los Angeles

GENESIS L.A. SITES

1. Biotech Center (Lakeside Debris Basin)
2. Sunquest Industrial (Calmat)
3. Marquardt Industrial
4. North Hollywood – Mixed Use Office Retail
5. Taylor Yards Industrial Park
6. River Station (Cornfields)
7. Pico/San Vicente Power Center
8. Santa Fe Rail Yard SCI-Arc Mixed Use
9. Samitaur/“Conjunctive Points” Creative Office
Target/McDonalds Retail Center
10. Adams and La Brea Mixed Use Office/Retail
11. Automobile Club
12. Sears Tower (Mixed Use Retail)
13. Crown Coach (Former Prison Site)
14. UPS (Old Facility)
15. Santa Barbara Plaza
16. Lancer Industrial Park
17. Chesterfield Square
18. Vermont Slauson Retail Center
19. Goodyear Industrial Tract/Slauson Retail
20. Watts Retail Center
21. Lanzt Industrial Park
22. Harbor Gateway Center

knew that in a city with transportation challenges, employers could find a ready workforce in these neighborhoods.

Unlike older cities, Los Angeles does not have a single “inner city.” Its 472 square miles cover varied terrain and encompass over 300 distinct communities, with low- and moderate-income areas spread throughout. Genesis LA sites were assembled to facilitate smart growth efforts by focusing on twenty-two carefully selected sites throughout Los Angeles. The sites are underused and blighted properties primarily located in distressed neighborhoods in South and East Los Angeles—urban infill gems (see map). The considerable size of these sites, most spanning over 40 acres, is integral to their function as job creation catalysts.

Because many of the sites are also situated in Enterprise Zones, Empowerment Zones or designated redevelopment areas, they are eligible to receive municipal, state and federal subsidies. The city’s involvement with and support of Genesis LA serves to expedite the processing of permits and entitlements necessary to prime the sites for development. Some sites are slated for retail development, others for industrial, manufacturing, biotech or mixed use. In all cases, job creation is the most important element to these developments given that they are located in Los Angeles neighborhoods with the highest unemployment.

Genesis LA projects benefit from the extensive financial expertise and support of its sponsors, partners, affiliates and board members. By identifying the gap financing necessary for each of its projects to attract private investment, the Genesis LA approach to financing complex redevelopment deals is what sets it apart from other economic development programs. Many of the current twenty-two sites would not be developed if not for the creative financ-

“*Our theory was to create oases in the middle of “desert” neighborhoods, much like dropping pebbles in a pond to create a ripple effect that would enliven a much larger area.*”

ing tools provided by Genesis LA. Gaps are filled with grants, city funds, tax incentives, investment from for-profit funds, contributions from corporate sponsors and the sale of naming rights. Partners with expertise in law, architecture, environmental cleanup and marketing provide in-kind resources that contribute to narrowing financing gaps. Genesis LA Economic Growth Corporation will itself provide gap financing of last resort, including purchasing property, if needed to make a project feasible.

Genesis LA has designed two distinct financial tools to attract private investment:

- The Genesis LA Real Estate Fund, LLC, provides debt and equity financing in and around the Genesis LA sites. It is managed by Shamrock Capital Advisors, Inc. and features attractive, risk-adjusted returns expected in the mid- to high-teens. Investments into this fund from financial institutions are eligible for CRA investment test credit (see box 1).

1

THE REAL ESTATE DEVELOPMENT FUND

Spin off is part of the LA lexicon. Used extensively in the entertainment industry, it means that one good thing breeds another. In keeping with its community, the good idea of Genesis LA led to its spin off, the Genesis LA Real Estate Fund.

The Genesis LA planners conceived the fund, developed specifications for it, then went shopping for a manager who would take it and run. Many stepped up to the table, but the board selected Shamrock Capital Advisors, an affiliate of Shamrock Holdings, the investment vehicle of the Roy E. Disney family. Shamrock has substantial experience with real estate development, and shares a dedication to Los Angeles with the Genesis LA team.

The Genesis LA Real Estate Investment Fund works like any other private investment pool, except that it only fund projects in low- to moderate-income areas of Los Angeles, which encompasses approximately 70 percent of the city’s area. This includes Genesis LA sites and properties around the sites. The fund, which is capitalized at \$85 million, seeks commercial, industrial and mixed-use projects that will create jobs and provide returns in the mid- to high- teens for its investors. The fund has committed 15 million dollars to date.

Its first investment in Hollywood has already been sold to the Academy of Motion Picture Arts and Sciences. The second, a live/work project in the Venice neighborhood, is under construction. A third project, four buildings totaling 650,000 square feet, will provide up to 1,200 jobs in light industrial businesses.

A TYPICAL DEAL: SUNQUEST

An old city vehicle maintenance yard and a closed landfill have been neighbors in the northern reaches of the San Fernando Valley for years. Together, these two parcels, totaling 33 acres, present a big opportunity for smart development. But developers and officials didn't need to look further than the landfill to know costs would be high. The tired, dusty neighborhood is surrounded by other industrial properties, mainly small operations. Less than a mile away are residential areas.

Genesis LA has helped put together an innovative financing package that will give rise to the SunQuest Industrial Park. When it is complete, four new buildings will house 350 employees. State-of-the-art industrial facilities, to be sold to their end users upon completion, will be constructed around the former landfill—about one-third of the site. At this point, identified tenants include: a manufacturer of sets and props for the entertainment industry, a manufacturer of equipment used for hazardous material and asbestos cleanup, and a company that sells and leases medical supplies to the entertainment industry.

Total Cost: \$51.35 million
Private sector funding: \$30.6
Public sector funding: \$20.4
Genesis LA funding: \$350,000

The Gap: A financing gap for this project was created by the costs associated with acquiring the landfill, moving the city vehicle maintenance facility, and the carrying cost for the project during permitting and remediation. In addition, until the land is remediated, collateral value is depressed, thus limiting the availability of traditional equity and debt financing.

Private sector funding

- The developer will provide \$6 million in equity, and has secured a traditional construction loan commitment of nearly \$15 million
- The Genesis LA Real Estate Fund is making a \$9.6 million mezzanine loan to the developer to be funded at milestone points throughout the process (as collateral value increases) in exchange for a 26% equity state in the project

Public sector funding

- The \$10.3 million cost of relocating the city's vehicle maintenance facility will be borne by the city. In addition, the City has a pending application for \$9 million in Section 108 funding, which will be used to acquire land at a lower interest cost—a benefit that will be passed on to the final purchasers of the buildings
- A brownfields grant of \$750,000, under HUD's Brownfields Economic Development Initiative (BEDI) program, has been made to cover remediation costs
- The City is making a \$350,000 contribution from its Community Development Investment fund, which is a set aside of federal Community Development Block Grant monies to be used only for economic development purposes

Nonprofit funding

- Genesis LA Economic Growth Corporation is contributing 350,000 in return for a portion of the developer's retained equity

When construction is complete, the developer will retain ownership of the parking lot, which will be constructed over the former landfill, so that liability for potential problems will not be transferred to the new owners. He is also indemnifying the City against any liability associated with cleanup of the old maintenance yard.

- The Genesis LA Growth Capital Fund will offer \$50-100 million for mezzanine financing, subordinated debt and other equity investments to manufacturing and technology companies that benefit low- to moderate-income neighborhoods, and/or are owned by minority or women entrepreneurs. Genesis LA is currently discussing the fund with interested investors.

The Genesis LA approach has attracted the interest of significant public and private sector sponsors who believe this approach will be the one to make a difference. In many instances, the expense of redeveloping distressed, often contaminated properties makes traditional financing, even with government subsidies, impossible. Two financial institutions with deep roots in Los Angeles have invested heavily in Genesis LA's funds. Both Bank of America and Washington Mutual recognize that inner-city neighborhoods provide excellent business opportunities. The bankers tell me that because Genesis LA funds deals, determines the financial feasibility of projects and manages the investments, it eliminates underwriting costs for them and leverages their dollars. At the same time, they receive market-rate returns on their investments and create jobs in low-income communities while investing in CRA-eligible projects. Like Bank of America and Washington Mutual, retail giants McDonald's and Kmart, plus the Los Angeles Department of Water and Power also have the vision to understand that by working together under the Genesis LA umbrella they can do well and do good at the same time. Each sponsor has committed up to \$1.0 million dollars to the initiative as well as invested in individual sites and/or the for-profit funds.

The Genesis LA team understands the expense of developing in urban areas, and recognizes the difficulty of working with government-sponsored programs that have been overwhelming to developers and financial institutions. Through Genesis LA, Los Angeles has found a way to attack inner city development by easing the way for private investment. By bringing flexibility and focus to addressing these problems, we get the money on the table. By taking the best ideas and adding to them, we have set a standard that can be replicated around the world. **CI**

To learn more about the Genesis LA project visit our website: www.genesisla.org/. For additional information about CRA-eligible investment opportunities in the *Genesis LA Economic Growth Corporation or Capital Fund*, contact:

Deborah J. La Franchi
 President and CEO
 213/687-0528
lafranchi@genesisla.org

Genesis LA Real Estate Fund
 Richard Gentilucci
 Vice President Real Estate
 Shamrock Holdings, Inc.
 818/973-4268
rgentilucci@shamrockinc.com

Browse Proceedings from the Federal Reserve's Community Affairs Research Conference

Changing Financial Markets and Community Development

Topics Include:

- **Conference Summary**
- **The Unbanked and the Alternative Financial Sector**
- **New Industry Developments**
- **Wealth Creation**
- **Evaluation of CRA**

Speeches by the Federal Reserve's

- **Chairman Greenspan**
- **Governor Gramlich**

Now available at . . .

www.chicagofed.org/cedric/index.cfm



ABOUT THE AUTHOR



Los Angeles City Attorney ROCKY DELGADILLO was elected to office on June 5, 2001. Before his election, Rocky served as deputy mayor for economic development, where he oversaw city efforts to retain and attract business and jobs. In this capacity, Rocky created the L.A. Business Team to encourage smart business development that is friendly to neighborhoods. The team worked with more than 2,000 companies representing 200,000 employees and more than \$20 billion in private investment over the last four years. In 1996, the Los Angeles Business Journal named Rocky "Government Official of the Year."

Prior to his work for the city, Rocky was a senior attorney at O'Melveny & Myers in Los Angeles. He left the firm to work as the director of business development for Rebuild L.A. in the aftermath of the 1992 civil unrest. Rocky's team at Rebuild L.A. attracted nearly \$500 million in investments for neglected communities, spurred 15 new private-sector training programs and created a \$6 million loan fund for inner-city entrepreneurs.

Rocky earned a scholarship to Harvard University where he graduated with honors while receiving the university nomination for a Rhodes Scholarship and earning recognition as an honorable mention All-American football player. He earned his J.D. in 1986 from Columbia University, and was awarded their Medal of Excellence for the most distinguished young alumnus in 1998.

Rocky Delgadillo remains extremely active in the Los Angeles community. He has chaired Latino Heritage Month for the last five years and serves on the boards of many organizations including Catholic Big Brothers, the First AME Church Renaissance Program, the Franklin High School Scholarship Foundation, Friends of Jordan High School in Watts, and Workforce L.A. Rocky, his wife Michelle, and their newborn son, Christian live in downtown L.A.