

# **Redeveloping Obsolete Industrial Land with Modern Manufacturing Facilities: The Job, Wage and Tax Implications for State and Local Government**

An LAEDC Center of Economic Development Policy Report

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# Redeveloping Obsolete Industrial Land with Modern Manufacturing Facilities

## Executive Summary

The shortage of modern manufacturing facilities in Los Angeles County has cost the region an opportunity to create high wage jobs estimated to be worth in excess of \$700 million annually in direct wages. The vacancy rate for manufacturing space has fallen steadily from 13.1% in 1993 to less than 3% in 1999. And in the tight Central Los Angeles market, the vacancy rate for manufacturing is an even lower 2%. Land occupied by obsolete industrial buildings and low value industries could be redeveloped with modern industrial parks to help create high wage (\$12-20/hr) jobs, but cities prefer retail establishments to manufacturing because the former generates more local tax revenue. The cities covet their one percentage point share of local sales tax collections because it is direct, discretionary income. Since there are few studies that explore the consequences of the local preference for retail business, this study quantifies the impact on jobs, wages and tax revenue for city and state governments of retail operations versus modern industrial parks.

Using a case study approach, alternative development scenarios were compared for two typical underutilized sites in Los Angeles County: one in Huntington Park covering 18 acres; the other a 31-acre site in the City of South Gate. The baseline current economic activity for each site is captured using a best-case scenario to ensure the estimates of the value added by redevelopment are conservative. Each site was assigned a regional shopping center for the retail option and a modern industrial park for the manufacturing alternative. The IMPLAN economic model was used to calculate the total jobs, wages and sales for each development scenario. These numbers were then used to derive the state and local taxes generated by the projects.

### ◆ The results confirmed the basis for the local preference for retail.

- At the smaller site, retail generated \$690,000 in local taxes annually, compared to baseline revenues of \$230,000 and \$220,000 for the manufacturing facility.
- The retail advantage was even greater at the larger site: \$910,000 for retail, \$110,000 for the high value manufacturing, and \$20,000 for the baseline.

### ◆ The cities appear to be trading better paying manufacturing jobs for fewer, lower paying retail jobs. The retail sector also creates a lower number of additional supporting jobs.

- High value manufacturing facilities produces more direct jobs than retail at the smaller site (921 compared to 480) and at the larger site (2,092 vs. 820).
- The richer multiplier for manufacturing (roughly 2.0) compared to retail (1.3) means it supports a greater number of jobs.
- Manufacturing created 3 times as many total jobs as retail on the smaller site (1,885 vs. 624) and almost 4 times as many at the larger one (4,212 vs. 1,084).

### ◆ Since the manufacturing facilities employ more and better-paid direct workers than retail, and because they generate more supporting jobs, manufacturing produces distinctly more state income tax.

- The income tax disparity at the smaller site helped the manufacturing redevelopment produce \$3.11 million in total annual revenue for the state, almost matching the sales tax-driven \$3.24 million from retail redevelopment. Baseline state revenue was \$2.78 million before redevelopment.
- At the larger site, the income tax revenue makes the manufacturing facilities *more* lucrative for the state (\$6.23 million in total annual tax revenue compared to \$5.23 million from retail).

The societal benefits and public savings from moving workers up from public assistance or low “non-living” wage to middle class income jobs are beyond the scope of this study, but these unmeasured benefits would surely be significant.

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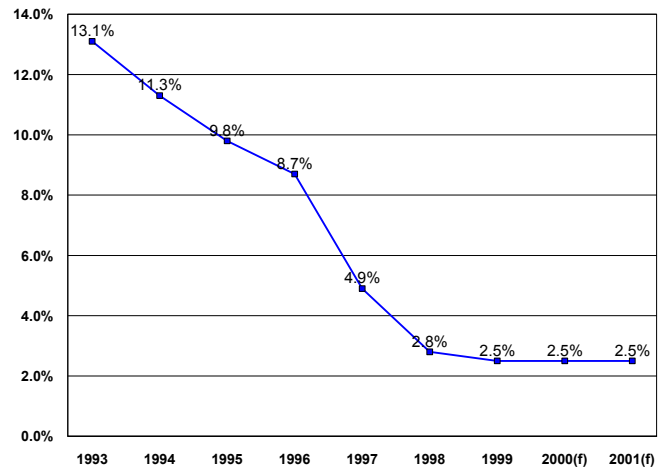
## Introduction

Demand for modern, efficient industrial space is strong, particularly in key logistical and manufacturing hubs. Here in Los Angeles County the vacancy rate for manufacturing space has fallen steadily from 13.1% in 1993 to less than 3% in 1999.<sup>1</sup> And in the tight Central Los Angeles market, the vacancy rate for manufacturing has dropped below 2%. This acute shortage of modern industrial facilities means demand has outstripped supply and the County is losing opportunities for new high wage jobs estimated to be worth in excess of \$700 million annually in direct wages.<sup>2</sup> These jobs, unlike low wage retail work, tend to pay well and typically include benefits such as medical insurance. Yet perverse incentives created by the tax system have largely kept local governments from ameliorating the industrial facilities shortage.<sup>3</sup>

It is widely accepted that when faced with the decision between immediate revenue for their budgets (from sales tax revenue) and long-term, livable-wage jobs (from manufacturing), cities prefer big-box retailers, car dealerships or other large sales-tax generators.<sup>4</sup> Less well understood, however, is the impact of redeveloping older industrial sites for retail instead of modern industrial uses in terms of the jobs, wages, and local and state tax revenue created.

This study use a case study approach to compare industrial and retail redevelopment of obsolete industrial facilities and underutilized land at two sites in Los Angeles County. Three alternatives – a baseline to capture current economic activity; a regional retail center; and a modern industrial park for high-value manufacturing<sup>5</sup> – were studied for each site. The IMPLAN (IMPact analysis for PLANning) economic model was used to calculate the total jobs, wages, and sales for each scenario and these numbers were in turn used to derive the state and local taxes generated by each project.

Figure 1  
Vacancy Rate for Los Angeles Manufacturing Space, 1993-2001



As expected, the cities have a strong fiscal incentive to favor retail over industrial: they receive little direct financial benefit from manufacturing, while the sales tax from retail operations produces a substantial revenue stream. The state, on the other hand, receives roughly comparable revenue streams from retail or manufacturing operations – with the edge going to manufacturing on larger sites – because manufacturing generates far more income tax for the state than a retail operation would on the same site. Manufacturing produces more income tax for the state because it generates more wages: manufacturing workers are paid more than their retail counterparts, and each manufacturing job creates more supporting indirect and induced jobs than a retail job. Thus, manufacturing facilities are important for creating high-wage jobs and produce at least as much revenue for the state as retail (if not more), yet cities facing short term financial pressures have a strong incentive to trade these good jobs for low wage retail positions and the concomitant sales tax revenue.

The report is organized as follows. Section Two explains how the sites were selected and the manufacturing and retail alternatives were developed. Section Three describes the research methodology and explains the results. Section Four concludes.

## **Site Selection, Development Scenarios and Tenant Selection**

### Site Selection

The study focuses on the Gateway Cities region of Los Angeles County because cities in this region contain much of Los Angeles County's underutilized industrial land; are located near the Ports of Los Angeles and Long Beach; and are served by rail lines and the 110 and 710 freeways and have much of the manufacturing workforce. Many of these cities also have among the lowest average family incomes in the County and would benefit significantly from the addition of well-paid manufacturing jobs. To make the retail versus manufacturing comparison as fair as possible, large enough sites were sought that would be suitable for redevelopment with either use. Obsolete and underutilized industrial facilities, however, are typically found in locations poorly suited for retail operations. Preference was given to relatively large industrial properties since an earlier study demonstrated that for smaller properties industrial and retail uses have a similar fiscal impact on cities. The study also indicated that small-scale industrial sites produced much greater economic activity than similarly sized retail operations.<sup>6</sup>

With the help of the Gateway City Economic Partnership, two sites were identified.<sup>7</sup> The

first site is an under-utilized property comprising thirty-one acres in the City of South Gate; the second is a collection of obsolete facilities on sixteen acres in the City of Huntington Park. If the streets running through the Huntington Park site were vacated, the total area available for development would be a little over eighteen acres.<sup>8</sup> In both cases, the cities would like to see these industrial sites redeveloped as large-scale retail properties. Kosmont Partners assessed the suitability of both sites for redevelopment based on existing land uses, overall location, general business investment factors, size of assemblage, and limited general market considerations. Overall, both sites were found to be suitable for either industrial or retail development. Demand for both uses in the area is strong, and industrial vacancies have dropped below two percent. The limitations on site development include assemblage (in the case of the Huntington Park site), and possible remediation. See Appendix 1 for a description of the factors that guide business location decisions, their applicability to the South Gate and Huntington Park sites, and a list of development hurdles.

### Development Scenarios

Kosmont Partners developed three scenarios for each site – a baseline (labor-intensive and relatively low wage manufacturing); a high-value industrial park (featuring capital-intensive manufacturing); and a regional retail center. The assumptions underpinning each are discussed below and complete site plans and architectural sketches can be found in Appendix 1.

*Baseline Scenario:* The point of the baseline is to determine the value of the current economic activity for each site so that the incremental value added by redevelopment can be calculated. The case study approach adds tangibility to an abstract issue and creates problems in terms of data collection. Business owners are understandably reluctant to share wage, sales and other financial data, particularly with investigators seeking to demonstrate that their operations underutilize their land. The solution employed here assumes the best-possible scenario for the low-value industrial use, thereby establishing an *upper bound* on the value of current industrial uses and ensuring any redevelopment benefits will represent a *lower bound*.

First an industrial park that makes optimal use of the available land *within constraints created by local zoning laws and market conditions* was designed for each site. For the baseline scenarios, the high-value industrial park was scaled back so that it only had single-story instead of two-story structures, which better represent the existing facilities. The Huntington Park site is a 311,150 square foot light industrial tilt-up facility comprised of seven single story buildings.

The South Gate baseline is a 670,200 square foot light industrial tilt-up facility (with five typical Hi-Bay buildings with office pods, a freight warehouse and a twin tower office complex). Next, the results of the baseline calculations were adjusted to better match the existing facilities. The (unadjusted) Huntington Park figures slightly underestimated the existing square footage because many of the structures were built before the adoption of modern building and zoning laws.<sup>9</sup> As a result, the site density is much higher than would be allowed today. The opposite problem was encountered at the South Gate location, which is the home of an obsolete industrial facility that is used to store pipe. The buildings occupy a little less than one-third the square footage of the baseline industrial park, so the results were scaled accordingly.<sup>10</sup> The pipe storage operation uses fewer people than the furniture and apparel manufacturing assumed here, so even with the scaling, the baseline is overly optimistic.

*High-Value (Capital-Intensive Manufacturing) Industrial Park:* The limiting factor at each site was market conditions, rather than zoning laws. Even with the tight market for industrial facilities, rents in the area made development at the scale allowed under city zoning laws unfeasible. The industrial park format was adopted because such parks are in demand, and have the advantage of separating the manufacturing facilities and attendant trucks from the surrounding community. The Huntington Park facility is similar to the baseline for the site, except that four of the seven buildings have a second level, resulting in a total of 415,700 square feet of floor space. The South Gate industrial park is essentially the same as the one used for the (unadjusted) baseline, but it has additional office space that brings the floor area up to 890,200 square feet.

*Regional Retail Center:* The communities surrounding the respective study sites are relatively underserved in terms of retail establishments, so a regional center would be appropriate for each city. The Huntington Park center has three major anchors, and some in-line tenant shops for a regional shopping center with 256,500 square feet of retail space and an appropriate amount of parking. The South Gate site would accommodate five anchors, along with row shops and restaurants for a regional shopping center with 437,800 total square feet.

### Tenant Selection

To calculate the economic value for each scenario, tenants had to be assigned to the various buildings. This was carried out in the manner described below.

*Baseline Scenario:* The garment industry was selected because it is the prototypical low-wage, underutilized industrial use. Garment manufacturers often occupy older buildings that are obsolete for the use for which they were constructed. The industry is labor intensive, and it is declining in Los Angeles due to competition with ultra-low wage foreign operations. For the larger facility at South Gate, furniture manufacturing was added to the mix to avoid an unrealistically large agglomeration of garment producers. Furniture production is similar to the garment industry in that it has traditionally been a labor intensive, low wage industry in Los Angeles.<sup>11</sup> Both industries – apparel and furniture – are well represented by actual businesses in both Huntington Park and South Gate. The mix of apparel and furniture in the South Gate baseline scenario roughly approximates the ratio of garment to furniture production businesses in the city.<sup>12</sup>

*High-Value (Capital-Intensive Manufacturing) Industrial Park:* The goal was to select a mix of industrial users that matched as closely as possible the mix of tenants one might reasonably expect if the facility were built and leased. Accordingly, industries such as biotechnology and computer chip manufacturing that require the highest educational and skill requirements (and not coincidentally have the highest pay scale among industrial workers) were eliminated from consideration. Environmentally unfriendly, i.e. “dirty” industries were also rejected since they would probably encounter local opposition. The available labor pool, existing business clusters (from the 1996 US County Business Patterns survey), and current market conditions were used to create a list of target industries. The finalists included food processing, commercial printing, lighting and wiring, fabricated metal products, and machinery and equipment manufacturing.

For the South Gate site, each of the industries was assigned to one of the five buildings. The industries may not have the same space requirements, but the data needed to assign space based on exact square footage does not exist. For the seven buildings (of varying sizes) at the Huntington Park site, the industries were assigned based on estimates of their space requirements and the relative number of actual businesses in each industry in the city.<sup>13</sup> As a final check, the square footage being added with the new industrial facilities was compared to the existing total to ensure it was a reasonable addition. Each site represents less than 10% of the total available in the respective cities, which themselves represent small fractions (less than 5%) of the county totals. The sites, if built as described, would be unlikely to overwhelm the demand for the goods produced, or the supply of available workers.

*Regional Retail Center:* Huntington Park and South Gate are underserved by retail, and a regional center would be an appropriate addition. Kosmont Partners identified the following potential tenants: Value Plus, KV warehouse type Mart, Notricas Market (Latino super market), Super Gigante (Mexican chain grocery store), home improvement stores, junior department/general merchandise discount stores, and various local ethnic-related specialty tenants. These tenants were sorted into anchor and non-anchor groups and were assigned appropriate space in the plans described above. Square footage totals for each retail category can be found in Appendix 1.

## **Research Methodology and Results**

### Methodology

All figures presented are for ongoing operations – either existing (for the baseline) or commencing once construction is complete (for redevelopment with retail or industrial uses). Construction costs and associated job creation and tax revenues are *not* included. The IMPLAN model was used to calculate the employment, compensation and total sales for each development scenario.<sup>14</sup> IMPLAN uses five region-specific modules (employment, value added, output, final demand and structural matrices), each with up to 528 industry sectors. By specifying an increase in final demand for a sector or group of sectors (here the addition of new manufacturing or retail operations), the model determines the multiplier impact related to that demand increase. The appropriate level of analysis here is the County of Los Angeles, since it is expected that any economic activity will spill over local jurisdictional lines, particularly for the industrial operations.<sup>15</sup>

The critical assumptions are the industry codes and square footage used for each industry (based on the development scenarios and tenant selection described above), as well as the employee density – the number of square feet per employee. There is some disagreement regarding the density ratios, and a surprisingly wide range of estimates considered appropriate for each industry. California state law requires that the San Diego Association of Governments (SANDAG) figures be used when calculating impact fees for new developments, and they have been adopted for this study as well.<sup>16</sup>

For the tax calculations, property taxes were assessed based on the tax bills of similar developments, the existing land value, and (a very conservative) estimate of the land value after

development. Sales taxes were calculated based on estimated sales per square foot by (industrial/retail) sectors. The city’s portion of the sales tax is one percentage point (of the 8.25% collected); the state gets five percentage points.<sup>17</sup> Huntington Park assesses a seven percent utility tax; South Gate does not. The state income taxes were calculated by applying a weighted average of 4.5% (which reflects the average rate actually paid in California) to the total wages generated by each scenario. Finally, all compensation and sales figures were calculated using the most recent data available (typically 1998), so the Consumer Price Index (CPI) was used as an inflator so that all monetary values (including taxes) would be expressed in current (Year 2000) dollars.

Results

<b>Table 1</b>						
<b>Job Creation by Alternative Redevelopment Uses</b>						
	<b>Land Use</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>	<b>Multiplier</b>
<i>Site 1</i> Huntington Park (18 acres)	Baseline (Low Wage Manufacturing)	1,291	474	497	2,263	1.752
	Industrial Park (High-Value Manufacturing)	921	420	545	1,885	2.048
	Retail (Regional Center)	480	35	109	624	1.299
<i>Site 2</i> South Gate (31 acres)	Baseline (Low Wage Manufacturing)	550	183	230	962	1.752
	Industrial Park (High-Value Manufacturing)	2,092	969	1,151	4,212	2.014
	Retail (Regional Center)	820	75	169	1,084	1.322

Selecting retail for redevelopment instead of manufacturing means an implicit trade-off between better paying manufacturing jobs and the numerous follow on jobs they create and fewer, lower paying retail jobs. The high value manufacturing facilities produce more direct jobs than retail at the smaller site (921 compared to 480) and at the larger site (2,092 vs. 820). The richer multiplier for manufacturing (roughly 2.0) compared to retail (1.3) means is evident in the columns for indirect and induced jobs. These follow-on jobs helped the manufacturing facility create 3 times as many total jobs as retail on the smaller 18-acre Huntington Park site (1,885 vs. 624) and almost 4 times as many at the larger 31-acre South Gate site (4,212 vs. 1,084).

The baseline for Huntington Park produces more jobs (partly because of the high square footage covered by buildings on the site which predate modern zoning laws) mainly owing to the labor intensity of the selected industries. Garment and furniture manufacturing, however, are among the industries most vulnerable to overseas competition (because they compete based on the wages of low skilled labor) and the jobs may not exist in L.A. in the not-too-distant future.

<b>Table 2</b>				
<b>Wages for Alternative Redevelopment Uses</b>				
<b>(in Millions of Current Dollars)</b>				
	<b>Land Use</b>	<b>Direct</b>	<b>Indirect and Induced</b>	<b>Total</b>
<i>Site 1</i> Huntington Park (18 acres)	Baseline (Low Wage Manufacturing)	29	31	60
	Industrial Park (High-Value Manufacturing)	36	31	67
	Retail (Regional Center)	8	4	12
<i>Site 2</i> South Gate (31 acres)	Baseline (Low Wage Manufacturing)	18	9	28
	Industrial Park (High-Value Manufacturing)	70	68	138
	Retail (Regional Center)	14	8	22

The wage totals reflect the manufacturing sector’s advantage over retail in terms of number of jobs created, and the average salaries those jobs offer. The disparity is immediately apparent when comparing direct wages at the Huntington Park site where industrial wages (\$36 million) dwarf retail wages (\$8 million). There is a similar difference at the South Gate site, which supports direct manufacturing wages of \$70 million compared to \$14 million for retail. When the more numerous indirect and induced jobs are included, the modern industrial park redevelopment produces five and half times the total wages of the retail option at the Huntington Park site (\$67 million vs. \$12 million) and six times the total wages on the larger South Gate site (\$138 million vs. \$22 million).

<b>Table 3</b>							
<b>Annual Tax Revenue from Alternative Redevelopment Uses</b>							
<b>(in Millions of Current Dollars)</b>							
	<b>Land Use</b>	<b>City Government</b>			<b>State Government</b>		
		<b>Sales Tax</b>	<b>Other Taxes*</b>	<b>Total</b>	<b>Sales Tax</b>	<b>Income Tax</b>	<b>Total</b>
<i>Site 1</i> Huntington Park (18 acres)	Baseline (Low Wage Manufacturing)	0.00	0.21	0.23	0.09	2.68	2.78
	Industrial Park (High-Value Manufacturing)	0.00	0.20	0.22	0.07	3.04	3.11
	Retail (Regional Center)	0.54	0.15	0.69	2.69	0.56	3.24
<i>Site 2</i> South Gate (31 acres)	Baseline (Low Wage Manufacturing)	0.00	0.02	0.02	0.00	1.22	1.22
	Industrial Park (High-Value Manufacturing)	0.00	0.10	0.11	0.00	6.23	6.23
	Retail (Regional Center)	0.85	0.06	0.91	4.30	0.99	5.23

\*Includes property, business and utility taxes.

The local government preference for retail operations can be readily understood by looking at city government sales tax column. The manufacturing businesses’ sales tax revenue is so negligible for the cities that rounded to the nearest million (with two decimal places) their totals are zero. Even though manufacturers tend to pay more business and utility taxes than retailers – a finding reflected in the “Other Taxes” column in Table 3 – the difference is not enough to offset the gap generated by the sales tax. At the smaller site, retail generated \$690,000 in local taxes annually, while manufacturing contributed less than one-third as much at \$220,000. Retail’s advantage was even greater at the larger site in South Gate where the totals for city government were \$910,000 for retail and \$110,000 for the manufacturing park.

The retail advantage created by sales tax revenues for the cities is magnified at the state level since the state share of the sales tax is five times greater than the cities’. The state, however, also collects income taxes. Since the manufacturing facilities employ more and better-paid direct workers than retail, and because they generate more supporting jobs, manufacturing produces distinctly more state income tax. The income tax disparity is so large – the manufacturing facilities generate roughly six times more state income tax revenue than retail – that at the smaller site it helped produce \$3.11 million in total annual revenue for the state, almost matching

the sales tax-driven \$3.24 million from retail. At the larger South Gate site, the income tax revenue helped make the manufacturing facilities *more* lucrative for the state (\$6.23 million in total annual tax revenue) than the retail operation (\$5.23 million).

For the obsolete Huntington Park site, both redevelopment alternatives produced more total tax revenue for the state than the baseline estimates – adding an annual gain to the state treasury of almost one half million dollars. At the underutilized South Gate site, the state would realize an even larger annual gain from redevelopment. The retail center produces roughly \$5 million more annual state tax revenue than the baseline economic activity, while the industrial park generates an additional million beyond that, for an annual total of about \$6 million in additional tax revenue. Given the optimistic nature of the baseline scenario (assumes light manufacturing – garment and furniture – at a site used to store pipe) the actual annual benefit to state coffers would certainly be higher than the estimates given here.

## **Caveats and Implications**

Redevelopment of obsolete and underutilized urban land has clear advantages. From a tax perspective, retail redevelopments help both the city and the state; while manufacturing operations primarily add to state revenues. Based on employment, however, manufacturing creates more, and better paying, jobs than retailing. Given the shortage of modern industrial space, and the strong demand for more facilities, one might expect the market to provide significant incentives for developers to redevelop obsolete and underutilized industrial properties. While job creation and tax revenue enhancement make the case for development with governments, however, they are not sufficient for developers.

New facilities will be built when developers can reasonably expect a positive rate of return on their investments, regardless of whether the end use is retail or manufacturing. There are two core obstacles to private sector redevelopment of obsolete and underutilized industrial properties: the often unknown levels of contamination and lack of clear remediation standards at older industrial sites; and the need to assemble the necessary parcels of land to create a viable massing for a successful project. These obstacles are described below.

Many of the older industrial sites prime for redevelopment are contaminated. While the potential cost of remediation is an obvious barrier, two often-overlooked issues also hinder redevelopment. First, developers are wary of acquiring land if it means also picking up the

liability for existing (and often unknown) contamination. Second, cleanup standards may be prohibitive even when the extent of the problem is clear. Restoring land to pristine condition makes sense if the land is to be used for schools or houses, but this requirement may be unnecessarily strict for an industrial operation. States such as Pennsylvania allow for such distinction in end uses in terms of the stringency of cleanup standards, a move California could emulate.<sup>18</sup> Until the contamination issue is addressed, much potentially valuable industrial land will remain underutilized.

Modern industrial facilities have a relatively large footprint. Industrial parks require significant acreage, but have the advantage of separating the manufacturing operations and any trucks from the surrounding community. Industrial sites are already in short supply, particularly larger properties of fifteen acres or more. Cobbling together smaller parcels of land in a process known as “assemblage” is time consuming, difficult and often expensive. Cities can expedite the process by exercising their powers of condemnation, but they have few monetary incentives to engage in such an arduous task – at least not for a manufacturing facility.

The state could help address the shortage of the modern industrial facilities within an up-front investment in redevelopment. Funds provided as an incentive to the cities – *not industry* – could be used to overcome some of the barriers created by brownfields and the land assemblage issues. Some of the funds, for example, could be used to help short-staffed smaller cities that lack the expertise and personnel to successfully apply for *existing* federal brownfields funds. The state’s investment would be recouped and, over time, surpassed by the additional tax revenue generated by redevelopment. Simultaneously, the state would help create the type of well-paid “livable wage” jobs many of the areas with obsolete and underutilized industrial land desperately need.

By creating the opportunity for high value, middle-income jobs with benefits, an industrial redevelopment policy could be used to create a “move-up” strategy in the underserved urban core. The low wage industrial workforce could be trained for the new manufacturing jobs. As these workers leave their current jobs to move into better paying ones, the unemployed and underemployed could move into the resulting entry level job openings. Los Angeles County still has over 280,000 cases on general relief or CalWorks assistance at an annual cost of approximately \$1.5 billion. With the current unemployment rate well under 6%, many of the new or vacant jobs created by the redevelopment policy could be filled by those on public assistance.

## ENDNOTES

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<sup>1</sup> The manufacturing vacancy rate is lower than the industrial vacancy rate because the latter includes warehousing and distributions facilities while the former does not. Rates quoted here are from LAEDC policy paper on “A Reindustrialization Strategy for Los Angeles County” (April 1999).

<sup>2</sup> Los Angeles County is the number one manufacturing center in the United States. Businesses are drawn to the region by its productive workforce, world-class transportation infrastructure, and premier design-and-build capability. Even more high wage jobs could be added but for the acute shortage of modern industrial facilities; many businesses are having problems finding sufficient space to meet their expansion needs. Moreover, much of our existing industrial base is functionally obsolete. (Older buildings lack features such as high loading bay doors that are essential for a modern manufacturing operation.) In 1996 roughly half the existing industrial buildings had been built before 1970; almost three quarters had been constructed before 1980. Current development is not keeping up with potential demand and large metro areas outside California are adding industrial facilities at three times the rate of the Los Angeles area. Source: “A Reindustrialization Strategy for Los Angeles County” (April 1999).

<sup>3</sup> Proposition 13 (which effectively transferred control of property tax revenues from local governments to the state) and subsequent initiatives have imposed severe limitations on local governments’ ability to raise taxes. Under the *situs* rule, one percentage point of the state sales tax is returned to the locality where it was collected – which translates (on average) into about twenty percent of the budget for cities in Los Angeles County. This revenue is particularly coveted because it is discretionary. Thus local governments have an incentive to pursue retail giants and other businesses that generate large amounts of sales tax. The result has been a gradual fiscalization of land use decisions wherein revenue generation weighs heavily in the choice between alternative development options.

<sup>4</sup> See Paul G. Lewis and Elisa Barbour, *California Cities and the Local Sales Tax*, July 1999. [www.ppic.org](http://www.ppic.org)

<sup>5</sup> High-value manufacturing is characterized by significant investment in plant and equipment, substantial input purchases, and high wages. These capital-intensive operations range from such “new economy” staples as chip and biotechnology production facilities to less glamorous activities including beverage bottling, commercial printing, metal stamping, and food products.

<sup>6</sup> A Hamilton, Rabinovitz and Alschuler (1998) study for the County of Los Angeles.

<sup>7</sup> The Gateway Cities Partnership, Inc., a private non-profit organization, recently completed a survey of dysfunctional properties in the region and was invaluable in assisting with site selection.

<sup>8</sup> The South Gate site is bounded by Firestone Boulevard on the South, Atlantic on the East, and Kauffman on the West. The site in Huntington Park is in a redevelopment zone and is made up of two areas: three blocks bounded by Santa Fe on the West, Slauson Ave. on the South, Malabar St. on the East and 56<sup>th</sup> St. on the North, plus another block bounded by 56<sup>th</sup> on the North, Malabar on the West, 57<sup>th</sup> on the South, and Pacific Blvd. on the East. The property is comprised of sixty-six parcels with thirty-five different owners.

<sup>9</sup> The actual square footage on the site is 387,442 – or 1.245 times more than the industrial park used to model the baseline. Results were adjusted so as not to overstate the value of redevelopment.

<sup>10</sup> The baseline industrial park is 670,200 square feet; the actual facilities on the site are only 175,909 square feet. Results presented later in this report reflect the lower number.

<sup>11</sup> Furniture making is changing in Los Angeles, however, as the lower wage component succumbs to foreign competition. The businesses that remain tend to be more upscale and include more design elements, and hence have a higher average wage than the garment industry. If anything, this should reinforce our bias towards overestimating the baseline economic activity.

<sup>12</sup> The approximation is rough because industries were assigned a proportion of the buildings, not the overall square footage, but the overall difference was slight.

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<sup>13</sup> The number of businesses per industry was taken from the 1996 US County Business Patterns Survey; Jack Kyser (LAEDC's chief economist and an expert in the structure of the regional economy) and David Gudrow (president of the Small Business Manufacturers Association) were consulted on the relative space requirements for the five industries used here.

<sup>14</sup> Another widely-used methodology involves the RIMS II input-output model. For a comparison of IMPLAN and RIMS II, see Appendix II.

<sup>15</sup> Using the County level analysis has the added advantage of improving the confidence interval for the results. Generally speaking, the narrower the focus of the model, the higher the margin of error for the estimates it produces. For a discussion of conceptual issues in multiplier analysis, see Appendix II.

<sup>16</sup> The employee density figures (sq. ft. per employee) used in this report are as follows: furniture/fixtures, apparel/textile products: 304; food processing, commercial printing, fabricated metal products, lighting and wiring, machinery and equipment: 450; office: 285; freight warehouse: 780; retail: 534.

<sup>17</sup> The sales tax in Los Angeles County is 8.25%, which means that for each \$100 in taxable sales, \$8.25 is collected. The money is divided as follows: the state keeps \$5.00; the city where the tax was collected gets \$1.00; the county gets another \$1.00; and the remaining \$1.25 goes toward transportation.

<sup>18</sup> Pennsylvania's Land Recycling and Environmental Remediation Standards Act (Act 2) is a model piece of legislation that balances environmental and economic needs. Full details can be found on the Pennsylvania Department of State's website [www.dep.state.pa.us](http://www.dep.state.pa.us). (Click on "subjects" and select Land Recycling.)