THE LOS ANGELES COMMUNITY DEVELOPMENT BANK: The Possible Pitfalls of Public-Private Partnerships

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ABSTRACT: *In response to the 1992 Los Angeles riots, the federal government, city and county officials, commercial banks and community leaders established the nonprofit Los Angeles Community Development Bank (LACDB). This public-private partnership was a new development model, designed to spur economic growth in some of Los Angeles' most disadvantaged areas. The LACDB was capitalized with $435 million from the U.S. Department of Housing and Urban Development and ranks as the federal government's largest inner-city lending initiative. By January 2001, however, the bank had experienced unacceptably high losses and was seeking permission to continue operations, after reducing its staff by half and closing most of its offices. This article examines why this innovative public-private economic development partnership confronted such difficulties. Public-private partnerships continue to be an important vehicle for urban economic development. This case study provides a warning of potential pitfalls that can occur from such arrangements.*

On May 10, 1995, Vice President Al Gore and U.S. Housing and Urban Development Assistant Secretary Andrew Cuomo announced that the federal government was providing the city of Los Angeles with $435 million in grants and loan guarantees for the creation of the Los Angeles Community Development Bank (LACDB). This ten-year effort would be the largest federal commitment ever for such an initiative. The planning process for the LACDB brought together city and county officials with private business and community representatives in a grand public-private partnership that was to be the nation's most powerful response to the

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JOURNAL OF URBAN AFFAIRS, Volume 23, Number 2, pages 133–153.

ISSN: 0735-2166.

1992 Los Angeles riots. The goal was to set up a nonprofit institution that would help stimulate investment and create jobs in Los Angeles' riot-scarred areas and other poor communities.

Just as important, federal money was to be used to leverage private funding. Four regional commercial banks pledged to co-lend an additional $210 million, increasing the total financial commitment to $645 million. Government officials hoped for even greater private-sector contributions in the future. As one HUD report stated, "The recently established Los Angeles Community Development Bank will be the largest of its kind in the country, and will provide $1 billion for loans, guarantees, venture capital, grants and technical assistance to small businesses in disadvantaged neighborhoods" (U.S. HUD, 1996, section 1, p. 24).

The LACDB stirred great excitement and high expectations. One 1997 report labeled Los Angeles a city "on the rebound" and pointed to the LACDB as an example of the type of initiatives contributing to this urban rebirth (Urban Neighborhoods Task Force, 1997, pp. 25–29). The *Los Angeles Times*, in supporting the creation of the bank, referred to the effort as a "rich public-private partnership" which was "old-fashioned liberalism, but with a wise twist of pragmatism" ("Bank with an Open," 1995, p. B6).

Six years later, a little more than halfway through its ten-year initial plan, the bank is facing an uncertain future as it awaits word from the Los Angeles city administration and city council on whether it can continue to operate or must shut down (LACDB, 2000). The bank has cut its staff in half, curtailed most of its lending activity and closed its satellite offices (Peabody, 2000). The restructuring is taking place in reaction to the bank's 32% loan default rate, its consistent inability to meet its job creation objectives, and numerous lawsuits from its borrowers. The *Los Angeles Times* has referred to the LACDB as "beleaguered" (Romney, 1999d, p. C1), and a recent article in the *New York Times* called it a "crushing disappointment to many" (Sterngold, 1999, p. A1).

We will briefly review the literature on public-private partnerships, highlighting their increased popularity and use as mechanisms for local urban economic development in the U.S. We then will examine the LACDB as a recent example of a specific public-private partnership. The case study is based on original sources, which include bank documents; interviews with community leaders, Los Angeles city officials, LACDB and HUD officers and staff; and contemporary press accounts.

UNDERLYING THEORY AND SUMMARY

Before reviewing the literature, we want to acknowledge the theory underlying this article. Our work owes a large debt to urban regime theorists. By definition, urban regime theory focuses on the relationship among the public, private, and nonprofit community sectors in urban politics (Stone, 1989). It argues that politics matter in urban governance. However, it also acknowledges that, in the American political and economic context, the private sector often has large advantages in shaping a governing regime, due to its access to resources (Stone, 1989). Urban regime theory thus identifies the private sector as a powerful actor in urban politics and attempts to trace its influence in any explicit partnerships, or implicit alliances, with the other two sectors (for a summary, see Nevarez, 2000).

Our case study analyzes a recent public-private partnership formed with federal funding from the Clinton administration. The administration tried to formulate guidelines and regulations that would create a new type of partnership, one that provided a larger role for community actors, and tried to ensure that more of the benefits would flow to area residents (Riposa, 1996). The problems we document buttress the conclusions of those who are studying other Clinton administration partnerships—involving the community as a full-scale partner is a difficult process, one that is often derailed by the existing political situation (see Weir, 1999). Ironically, we conclude that part of the problem in Los Angeles is that the public sector actors themselves placed too much faith in private sector methods. This fact highlights how dominant private sector approaches are in the present American discourse.

We conclude, however, that the Los Angeles Community Development Bank can boast of some accomplishments (see also Pastor, Dreier, Grigsby, & Lopez-Garcia, 2000). Furthermore, the new bank leadership is now actively considering changing course and patterning the bank after existing, effective models of community development finance. If allowed to continue, the bank has a chance to further fulfill its mandate of increasing the flow of capital to underserved neighborhoods of Los Angeles.

Nevertheless, this article does serve as a warning. The following case study highlights the fact that public-private partnerships, currently so popular in urban governance, are not a panacea. They need to be carefully structured in order to be effective and inclusive.

PUBLIC-PRIVATE PARTNERSHIPS IN THE U.S. URBAN CONTEXT

In order to understand contemporary forms of partnerships, we first need to clearly define what they are. Such a definition is especially important because many city officials have begun claiming that all sorts of relationships with private and nonprofit actors constitute a "public-private partnership" (Walzer & York, 1998). In our analysis, we make use of Peters' five-point characterization of public-private partnerships. Peters (1998) writes that such partnerships:

1. Involve "two or more actors," at least one of which is a public entity.
2. Each of the participating actors can bargain on its own behalf.
3. The partnership involves a long-term, "enduring" relationship.
4. Each actor must be able to bring either material or symbolic goods to the relationship.
5. All actors have a "shared responsibility" for the outcomes (pp. 12–13).

Public-private partnerships have become an increasingly important form of urban governance and a primary means of local economic development in most US cities. As Keating (1998) observed

> Public-private partnership has become an almost universal theme in urban policy and government on both sides of the Atlantic. Apparently offering low-cost solutions to urgent problems and transcending the ideological divides, it has become widely popular and accepted almost uncritically (p. 163).

Of course, partnerships are not new. In one form or another, they have played crucial roles in US urban politics for well over a century. Beauregard (1998) argues that public-private partnerships date back to the mid- to late-nineteenth century, at which time urban governments began differentiating their interests from those of private businesses. During the post World War II era, the federal government became an increasingly important partner, with the urban renewal program of the 1950s and 1960s an example of this newer form of public-private partnership (Levine, 1989; Stephenson, 1991).

It was during President Carter's administration that the concept of public-private partnerships became an explicit, crucial component of federal urban policy. Carter's 1978 National Urban Policy expected the private and nonprofit sectors to take on equal roles with government in redeveloping cities, providing not just resources but also expertise (Lyall, 1986) (see also Clarke, 1998; Linder, 2000; Stephenson, 1991).

Urban Public-Private Partnerships Since the 1980s

Over the last two decades, American city officials have increasingly turned to public-private partnerships as a means of local economic development and urban governance (Clarke, 1998; Levine, 1989; Walzer & York, 1998) (for comparative purposes, see Kearns & Turok, 2000). In part, city officials view partnerships as a practical response to cutbacks in federal aid and limited local budgets. The partnerships are seen as cost-effective because they leverage increasingly scarce public sector resources with those of the private and nonprofit sectors (Linder & Rosenau, 2000; Osborne & Gaebler, 1992; Peters, 1998).

Partnerships also are a form of governance that reflects the prevailing political and cultural ideology, one that gives higher standing to the private sector. Partnerships tap into the increasingly anti-bureaucratic attitude of the public, because they are seen as a means of bypassing normal government channels and benefiting from the perceived efficiencies of the private sector (Osborne, 1990; Squires, 1989). As Kanter (2000) has observed, "Business language increasingly pervades public discourse" (p. 167). The presence of business representatives, rather than government officials, now confers legitimacy on many policy initiatives, because business is widely viewed as a "neutral convener" and "above politics" (Kanter, 2000, pp. 167–169). Thus, public-private partnerships, by bringing the business sector into the decision making process, have become a means of lending a stamp of approval to specific urban projects and to general changes in urban policy.

Some observers hail public-private partnerships as bridging mechanisms, new governing institutions that can allow for a greater diversity of voices from the nonprofit, private, and public sectors (see Wiewel, Gaffikin, & Morrissey, 2000; for inner-city business development specifically, see Gittell & Thompson, 1999). Skeptics point out that these institutions will only work if safeguards are built into their structure to make sure that the public and nonprofit sectors are treated as equal partners with the private sector (Levine, 1989).

The view of partnerships as a new form of governance is consistent with reformers who support "Third Way" ideas. Osborne (1990), who has helped popularize such concepts, explains the Third Way paradigm by writing that, "To boil it down to a slogan, if the thesis was government as solution and the antithesis was government as problem, the synthesis is government as partner" (p. 327) (see also Osborne & Gaebler, 1992).

In academic literature, Third Way governance is subsumed under the label of the New Public Management (NPM) movement. For Stoker (1998), public-private partnerships are an important NPM mechanism, a means of establishing "new forms of governing [that] involve working across organizational boundaries" (p. 37) (see also Keating, 1998; Linder, 2000).

Along these lines, Hula and his colleagues hold high hopes for specific types of partnerships in the urban context, partnerships that they identify as governing nonprofits. These are partnerships in which local nonprofit organizations take the lead in forging "coalitions among various groups and across multiple organizations and sectors in an effort to address chronic societal problems by increasing the capacity of the local political system" (Hula, Jackson, & Orr, 1997, p. 460).

While these ideas are appealing, there is a danger that public-private partnerships will actually inhibit other voices and lead to inefficient outcomes if one or more of the partners plays a subservient role (Peters, 1998). In the American urban context, the danger is that local governments and/or community nonprofits often are the ones playing this subservient role, especially in financially-strapped cities desperate to attract and retain private business (Clarke, 1998).

The Clinton Administration's Advocacy of Partnerships

Public-private partnerships came to play a crucial role in President Clinton's "New Democrat" or "Third Way" policies (Ross & Levine, 2001). The Clinton administration clearly advertised its view that public-private partnerships were a key component of its urban policy. For example, a U.S. Department of Housing and Urban Development report (1999) stated that

> The right mix of public incentives, combined with the willingness of the private sector to invest in untapped markets, is highly effective as a recipe for revitalizing distressed communities. The Administration's 21st Century Agenda for Cities and Suburbs uses targeted public incentives to encourage partnerships among the public, private and nonprofit sectors and to attract more private sector investment in business and redevelopment projects (p. xiii).

Analysts have criticized earlier partnership models for their lack of community involvement and disregard of disadvantaged residents (see Squires, 1989). In contrast, the Clinton administration tried to build safeguards into new partnerships by mandating that the local community be fully involved (Riposa, 1996). For example, one of the four principles that communities had to address in applying for an Empowerment Zone designation was evidence of community-based partnerships (Rodgers, 1998; Weir, 1999).

President Clinton became an early advocate of a specific type of Third Way organization—the community development bank. While still governor of Arkansas, Clinton wrote the foreword to Osborne's *Laboratories of Democracy* (1990). In the book, Osborne attempted to disseminate what he saw as successful models of new governance. The "development bank model," based on the South Shore Bank of Chicago (now ShoreBank), was one such example (p. 305). Osborne praised what South Shore had been able to accomplish and added that, "If we are to pursue an effective development strategy in poor communities, neither the public nor the private sector is the best vehicle. . . . We need to add yet another third-sector model, the community development bank" (p. 312).

When it came time to decide how best to encourage a public-private partnership effort in Los Angeles as a response to the riots, the Clinton administration felt very comfortable supporting a community development bank model (Merl, 1995a). This model fit the administration's overall goals for creating or strengthening partnerships that would "identify, package and broker deals to the private marketplace" (U.S. HUD, 1996, section 1, p. 32). Such deals would reduce the risk to the private sector by decreasing the uncertainty associated with investing in inner-city neighborhoods. The federal government's role would be to provide seed funds, which would then leverage other public and private monies (U.S. HUD, 1996).

THE CREATION OF THE LOS ANGELES COMMUNITY DEVELOPMENT BANK

On April 30, 1992, the city of Los Angeles erupted in violence when an all-white jury found four white police officers innocent in the beating of black motorist Rodney King. The rioting and looting triggered by that verdict lasted six days and resulted in 52 deaths and nearly $1 billion in property damage and destruction (Sears, 1994).

The riots served to highlight the tremendous difficulties that Los Angeles was experiencing in shifting to a global, post-industrial economy. The city was especially hard hit by the recession of the early 1990s—between 1991 and 1993 the large majority of the job losses in the state of California were centered in Los Angeles County (Pastor, et al., 2000).

The riots also served as the catalyst for efforts at urban revitalization initiatives, including one proposed by the newly elected Democratic president, Bill Clinton. One focus of Clinton's initiatives was the Empowerment Zone (EZ) program, which consisted of federal infusions of social service grants and business tax credits into blighted urban and rural regions of the country.

The Empowerment Zone legislation was signed into law in August 1993, with the first six urban sites to be selected in December 1994. Since Los Angeles was the impetus for the program and was home to California's largest group of Democratic voters, city leaders were confident of its selection as an EZ site (Boyarsky, 1993). Clinton administration officials offered further encouragement by indicating that Los Angeles was "virtually assured of receiving one of the zones" (Lopez, 1993, p. 14).

However, a few weeks before the Empowerment Zone application deadline, the city was told by the U.S. Department of Housing and Urban Development (HUD) that its proposed application was too vague and lacked specific details of how it planned to address the poverty in the proposed Zone areas. Furthermore, HUD officials were concerned about the application's lack of evidence of private sector involvement and resources (Connell, 1994; Lichtblau, 1994; see also Pastor, et al., 2000). With little time remaining, Los Angeles officials scrambled to come up with more details for their proposal.

In early December 1994, shortly before the scheduled announcement of the selected sites, HUD officials met with Los Angeles city leaders to let them know that the city's prospects of receiving an EZ were slim and to suggest other funding options if the city were not selected. Towards that end, HUD officials encouraged the city to apply for a combination of an Economic Development Initiative (EDI) grant and Section 108 loan guarantees (Merl, 1995a).

Both EDI grants and Section 108 loan guarantees were designed for economic development rather than social service purposes. The programs came with stringent guidelines that made them less flexible than other federal funds, including the money that would have accompanied an empowerment zone designation (Nelson Rockefeller Institute, 1997). The Section 108 loan guarantees also involved a potential risk to the city of Los Angeles: the guarantees would be secured by the city's share of future community development block grant (CDBG) funds, money often used for social service programs in needy areas (Merl, 1995a).

Los Angeles Mayor Riordan's office quickly assembled a team to come up with a proposal for how the city would use the money. Led by the deputy mayor for economic development, the planning team consisted primarily of volunteer private sector bankers, lawyers, and financiers, all of whom had very little developmental finance experience. The team's composition reflected Riordan's preferences. The newly elected mayor came from the private sector, and he placed his confidence in those who had a similar background and outlook.

Given the limitations of the funding, the bank's planners felt they had little choice but to propose to use most of the federal money to provide business loans. As one of them explained, "The thinking was, we're getting this consolation prize. There isn't a whole lot else that we can do with it." Loosely building on a one-stop capital shop idea discussed in the original Empowerment Zone application, the city submitted a proposal to HUD to use the funds for a community development bank.

On December 21, 1994, President Clinton announced the six cities that would receive empowerment zone (EZ) designation and two additional cities that would receive a consolation prize of supplemental empowerment zone (SEZ) designation. Los Angeles received the larger SEZ package—approximately $200 million in grants and loan guarantees (Brownstein & Schwada, 1994). At least 75% of these funds had to be used within the original EZ target area, a 19.3 square mile region of 200,000 residents, encompassing "the traditional industrial core of Los Angeles, including the Downtown Alameda Corridor, the Historic Core, Central Avenue, Watts, and Firestone" (U.S. HUD, no date, p. 4). The remaining 25% of the federal funds could also be used in a one-mile buffer zone surrounding this area.

Mayor Riordan, who had campaigned promising to stimulate Los Angeles' economy by bringing jobs and services to impoverished communities, did not feel that the SEZ designation and the $200 million were sufficient. Humiliated by the failure to obtain EZ designation, Riordan pushed the federal government to enlarge the city's consolation prize (Schwada & Merl, 1995; Schwada & Richter, 1994). Following what sources described as a series of "sometimes crisp sessions," the Clinton administration agreed to have HUD add an additional $200 million in loan guarantees to Los Angeles' SEZ package (Newton, 1997, p. A1).

The extra $200 million not only gave the proposed bank more stature, it also provided funds that could be used for investments in high-poverty areas outside the SEZ. The mayor believed that to gain the approval of the 15-member city council for the idea of a community development bank, he would need to present a plan that provided benefits to a larger number of council districts.

However, the proposed bank could not invest this additional $200 million outside the SEZ unless it was able to raise public and private capital with which to administer these funds. Towards that effort, Mayor Riordan pledged $5 million from the city's allocation of Community Development Block Grant funds, with the community development bank's planners intending to raise the remaining capital from private sources.

Los Angeles County, which had participated in the original EZ application, was also part of the SEZ application. The county received $50 million from HUD, half in EDI grants and the other half in Section 108 loan guarantees, and committed $30 million of this capital to the new community development bank. With the inclusion of the funds promised to the county, Los Angeles had a $435 million commitment from the federal government. Of this total, $115 million consisted of EDI grants, $315 million of Section 108 loan guarantees, and $5 million of community development block grant funds (Report from City Administrative Office, 1995).

As evidence of private sector involvement in this new partnership, four large regional banks also committed an additional $210 million to the project (Schwada & Merl, 1995). The community development bank's planners had seen this involvement as crucial for HUD's ultimate approval of the project. One of the reasons why Los Angeles failed to receive an Empowerment Zone designation was that there had been insufficient private sector involvement in the EZ plan. When the city was working on the bank proposal, HUD officials strongly stressed how crucial it was for Los Angeles to show that it would leverage private resources with the federal funds.

Mayor Riordan played a critical role in obtaining private sector commitments for the new bank, calling the heads of several large regional banks to ask for their participation. The commercial banks were not pleased with the new bank's creation, since it represented potential competition. However, Mayor Riordan stressed the necessity of obtaining private sector commitments in order to receive the federal money and, in the end, four large commercial banks—First Interstate Bank, Bank of America, Wells Fargo, and Union Bank—produced the requested letters of support (Schwada & Merl, 1995).

The four commercial banks promised to co-lend with the new bank as long as the deals were of sufficient quality. However, these commitments were conditional and not legally binding. Nevertheless, the bank's planners ultimately included this $210 million in additional commitments in the community development bank's anticipated capitalization, raising the total to $645 million. Later, a consortium of smaller commercial banks also pledged its own co-lending funds to the effort (Leovy, 1998).

The Planning Process

Los Angeles officials now had two months to submit a preliminary proposal for the community development bank to HUD. Once that proposal was approved, city officials would have additional time to formulate and gain agreement to more specific operating guidelines.

The planning committee liked the concept of a bank. However, the committee chose not to follow the community development bank model created by Chicago's ShoreBank, which included a for-profit bank holding company, a depository institution, and other for-profit and nonprofit subsidiaries. The Los Angeles Bank planners worried that structuring the bank as a for-profit entity may have alienated members of the city council, who could have seen it as inappropriate for a project funded with public money. Some council members also may have perceived a for-profit bank as being too closely aligned with Mayor Riordan's ideology and background as a private sector venture capitalist. Furthermore, a true depository institution might have threatened the existing commercial banks in the area, undermining their promised support (Kraul, 1995).

For all these reasons, the planners chose to create a nonprofit loan and equity fund instead. However, they decided to maintain the word "bank" in the fund's title. They even obtained a special waiver from the California Department of Corporations that enabled this unregulated, non-depository institution to be called a bank. The organization's official title would be the "Los Angeles Community Development Bank, Not a Commercial Bank." The disclaimer "Not a Commercial Bank," was required by the California Department of Corporations, to clearly differentiate the Los Angeles Community Development Bank (LACDB) from private banks.

In early March 1995, the Los Angeles City Council unanimously approved the planners' proposal for the LACDB. The proposal was then submitted to HUD. On May 10, 1995, Vice President Al Gore officially announced the federal government's approval of the plan, making the LACDB the largest federally supported urban loan program in history (Schwada, 1995).

Although the LACDB was now officially launched, bank planners still had major issues to resolve. One of the most important issues was a need to obtain agreement from HUD on waiving certain restrictions that came with the city's initial $200 million in federal grants and loan guarantees. These restrictions included the requirement that the bank create or retain one job for every $35,000 in bank capital invested; that the bank only finance businesses located in, or willing to move to, the SEZ; and that 51% of all the jobs created or retained go to, or be made available to, individuals living in the target area of the SEZ.

The planners' hopes that HUD would waive some of the restrictions had been bolstered by encouragements from high-ranking HUD officials and by the planners' general inexperience working with such federal programs. With the exception of the city's Community Development Department (CDD) staff, which had managed community development loan funds using Section 108 capital, most of the original planners had no previous experience with this source of funding. Although a few members of CDD's staff argued that certain waivers were unlikely, their warnings went largely unheeded and served only to minimize their future role in the planning process.

Ultimately, HUD did not approve many of the requested waivers, a number of which would have been in violation of federal laws (see Merl, 1996). By proceeding under the assumption that the waivers would be forthcoming, however, the planners had created a bank structure that did not reflect the limitations of its funding. As one of the original planners later commented, "If I had known that we wouldn't get the waivers and that the money wouldn't be clean, I wouldn't have gone with that model, which was based on private-sector funding assumptions."

The LACDB's planners also needed to create operating guidelines, develop loan criteria, and appoint a board of directors (Merl, 1995b). The selection of the board proved to be a contentious issue. The planners wanted to bypass the Ralph M. Brown Act, California legislation that guarantees the public's right to attend and participate in meetings of local legislative bodies. They were concerned that the Act would require the LACDB to make all its loan approval meetings open to the public, which could discourage business owners from applying for funding and potentially increase political influence over lending decisions. The Brown Act's open meeting provision could be bypassed, however, if individuals from the private sector incorporated the bank and appointed the majority of its board of directors.

A group of private sector volunteers already had been selected by Riordan to serve as the bank's initial incorporators. The mayor and the city council disagreed, however, over the composition of the board. While Mayor Riordan's office and the bank incorporators argued that the board needed to be as independent from city council oversight as possible, with the bank free to conduct its business in private, the city council wanted to place the bank under its control (see Ray, 1995). Ultimately, the planners arrived at a compromise: the incorporators would appoint four self-perpetuating board members. Riordan would appoint an additional six board members, subject to the city council's approval. Los Angeles County would appoint one board member, and a panel of local university presidents would choose the remaining four board members (U.S. HUD, no date). The 15-person board would thus have eight privately appointed members and seven publicly appointed ones, allowing the bank to hold closed-door meetings.

The final agreement between the bank, the city, the county, and HUD was signed at the end of October 1995. The board's first meeting was in mid-November, and it immediately began working with the planners and the city council to complete the development of specific bank policies. One of the policies it adopted was a turndown provision: a stipulation that the bank could lend money only to businesses that had been turned down at least once by a commercial bank. The board included this provision to satisfy the federal requirement that Section 108 funds be used to supplement, rather than supplant, private funding. The city council also thought the provision was a good idea, fearing that without it, commercial banks might shirk their responsibilities by decreasing their ongoing levels of investment in the LACDB's target area.

In late May 1996, the board hired C. Robert Kemp as the bank's CEO. Kemp assumed control in June, a year and a half after the bank was originally proposed. His job was to execute a plan that he had not helped to create. Kemp immediately set about hiring a staff, putting systems and policies in place, and generating loans. Using a group of temporary loan agents, the bank made its first loan in July 1996.

The Bank's Operation and Lending History

The bank's initial rate of lending was slow: it lent out $2.5 million in loans in the second half of 1996 (LACDB, 1997) and an additional $25 million in 1997 (LACDB, 1998). Members of the target communities became restless at the slow start-up process (Newton, 1997). This impatience was exacerbated by press scrutiny, which focused on how few loans the bank had made during its first years of operations. In an early 1998 interview with the bank's CEO, a *Los Angeles Times* reporter observed, "people are concerned about the amount of time that has gone by versus the amount of money that has been loaned out." The reporter then pointedly asked, "What's the problem?" (White, 1998, p. M3).

The bank also was feeling pressure from individual city council members, some of whom were in frequent contact with the bank about its slow pace of lending. The LACDB regularly reported on and defended the number of loans and dollars it invested in the districts of individual council members. In response to calls from unhappy constituents, some council members also required bank staff to spend time and resources explaining individual loan decisions.

Although the bank accelerated the total dollars loaned through 1998, it remained behind in meeting its own investment objectives. The bank's 1999 Business Plan revealed that it had reached less than 40% of its lending goals for 1998 (LACDB, 1999a).

In large part, the LACDB was hampered by its own design as a wholesale rather than a retail lending institution, structured to make the majority of its loans through intermediaries. These intermediaries, including private lending and community economic development organizations, would originate and underwrite loan requests for the LACDB (U.S. HUD, no date). This design reflected pressure placed on the city council by existing community organizations, which wanted the chance to serve as such intermediaries and, in the process, possibly access new grant funds from the bank. Under this scenario, the bank itself was expected to make only a handful of direct retail loans each year (Schwada & Merl, 1995).

The majority of the bank's largely inexperienced intermediary organizations, however, did not have the capability to find appropriate businesses to finance. Only one of the bank's four intermediary micro-loan providers, and one of the seven business-loan providers, made any loans in the LACDB's first two years of operations (LACDB, 1999a).

Moreover, the bank also had been planning on co-lending extensively with other institutions in the region (Yarborough, 1996). This would give the bank time to hire and train its staff before assuming responsibility for all the services it would ultimately provide. However, the bank found itself limited in its ability to leverage its capital with that of private lending institutions.

The bank's difficulties were two-fold: First, the bank had to compete with organizations such as the federal Small Business Administration, whose loan guarantee programs carried more favorable terms than did the bank's (LACDB, 1999a). Second, the four large commercial banks, which in 1995 had pledged $210 million, were not interested in most of the co-investment opportunities that the LACDB brought to their attention. Only one of these banks, Bank of America, ever co-invested with the LACDB, making just one commitment of $6 million.

As the Southern California economy began to improve after 1995, rather than co-lending with the LACDB, the large commercial banks began aggressively pursuing deals for themselves in the bank's geographical area (LACDB, 1999a). As the private banks increased their levels of investment in the targeted inner-city neighborhoods, they "cherry-picked" the best, most profitable deals available. In contrast, the LACDB was hindered by the turndown provision, prohibiting it from investing in any company not already rejected at least once by a conventional lender. The bank therefore saw its pool of potential customers shrink and become even more risky.

An additional problem was the bank's own high cost of capital. The Section 108 loan guarantees, used by the LACDB to make loans, are priced slightly above the U.S. Treasury rate. This meant that, over the first few years of the bank's life, the loan guarantees were priced at an interest rate of approximately 6.5%. This rate did not factor in the bank's administrative expenses and loan loss reserves, which totaled an additional 14%. Since the LACDB offered loans at rates as low as 7 to 8%, in line with those of area commercial banks, the bank lost money on each loan that it made, even if that loan were to be fully repaid. The bank's board of directors recognized this fact, but felt that it was appropriate to use the bank's EDI grant funds to subsidize the resulting losses, to allow the bank to provide loans of last resort to the community.

By early 1999, press criticism of the bank had shifted to the quality rather than the quantity of its loans. In February 1999, the *Los Angeles Times* revealed, "more than a third of [the bank's] major borrowers go out of business or fall into deep trouble with their loans" (Romney, 1999a, p. A1). A subsequent report by the LACDB to the city council indicated that nearly 60% of the bank's portfolio consisted of problem loans, where the borrowers were either more than a month behind in payments, had bounced a check, or were experiencing cash flow or other problems (Romney, 1999c).

The *Times* article also indicated that the bank was significantly behind in its job creation objectives and was facing a lawsuit alleging fraud and negligence from a former borrower (Romney, 1999b). The suit, filed by Summit Industries of Nevada, Inc., alleged that the bank had mishandled a $2.5 million loan to the company, damaging the business in the process, and then had abruptly withdrawn its promised support (Romney, 2000a).

The city council reacted by giving the LACDB 30 days to respond to the problems outlined in the *Los Angeles Times* article (Los Angeles City Council, 1999). Although the council had amended and then approved each of the bank's annual business plans, council members seemed surprised and dismayed at the article's allegations. A spokesperson for one of the council members was quoted as saying, "We've always been curious what the [LACDB's] policies were and how they make decisions and how prospective customers get to that money through them" (Romney, 1999b, p. C2).

A Transition in Leadership

In July 1999, the bank's CEO, C. Robert Kemp, cited health problems and stepped down from his position. Linda Griego, a former Los Angeles deputy mayor and a LACDB board member, agreed to serve as the interim CEO while a permanent replacement was sought.

Griego's first challenge was obtaining city council permission to raise the bank's lending cap to $26 million, in order to correct a breach of the bank's Comprehensive Agreement with the city and county of Los Angeles. The Agreement stipulated that the bank could not lend more than $20 million to any individual borrower. Yet, on April 17, 1999, the bank exceeded that cap by approving an additional $2.9 million loan and a $1.5 million line of credit to the Copeland Beverage Group, a start-up dairy. These loans brought the total capital that the LACDB had lent to Copeland to $23.2 million (LACDB, 1999b).

The LACDB's board and staff had continued to provide additional funding to the troubled dairy, because they were concerned about the political fallout if such a large loan failed. This concern was heightened by the growing press criticism of both the pace and quality of the bank's lending.

In May, the bank submitted a corrective plan of action regarding the Copeland deal to the Los Angeles Community Development Department (CDD), the city's authorized representative under the Comprehensive Agreement. In early July, the CDD turned down the bank's corrective plan and referred the matter for action to the city council. The city council first became aware of the problem at its end-of-July meeting, three months after the bank initially exceeded its lending limit. In the meantime, the LACDB had approved a further $3.6 million in financing to Copeland (LACDB, 1999b).

The city council refused to raise the bank's lending limit, and in August 1999, the LACDB was forced to cut off all funds to the dairy, effectively closing it down. After selling off Copeland's assets and paying its other creditors, the LACDB had lost just over $22 million. The Copeland deal also pushed the LACDB's overall default rate to 32% of its total portfolio (Romney, 1999d).

In December 1999, William H. Chu, a former commercial banking senior executive, was selected to head the LACDB (Romney, 1999e). Almost immediately, Chu was faced with the need to convince an increasingly distrustful city council and city staff that the bank could operate more effectively in the future. This included ensuring that the bank would not breach its loan limits again and that it could address its high rate of default (Romney, 1999e).

In early March 2000, as Chu was working to restructure the LACDB, the bank lost the Summit lawsuit. The judge in the case awarded Summit Industries $7.2 million plus interest, most of which the bank's insurance policy would not cover, as it was capped at $1 million (Romney, 2000a). In addition to Summit, five other legal cases had been filed against the bank by March, only one of which had been settled (LACDB, 2000).

Los Angeles city officials reacted to the Summit judgment by asking Chu for a plan of reorganization, in case the final judgment in the case went against the bank. Chu responded with a plan to refocus and streamline the bank's operations, preserve capital, and explore alternative public and private re-capitalization strategies that would enable the bank to continue operating. The reorganization plan was approved by the mayor's office and the city council in late June, with the request that the LACDB provide periodic updates and a final 90-day report on its progress (LACDB, 2000).

The bank immediately stopped making any new investments, with the exception of those made through its intermediary microloan program and those made by Zone Ventures, a venture capital fund funded by the bank. In mid-July, as part of the streamlining and capital preservation strategies, Chu reduced staff by half and closed the bank's main office, as well as two of its three satellite offices (LACDB, 2000).

Current Situation

On October 10, 2000, the LACDB filed its 90-day report. The report reviewed the bank's progress in reducing costs and outlined three proposals for continuing operations. The bank's preferred approach called for the creation of a for-profit entity that would assist the LACDB to raise roughly $20 million in private capital. The bank needed this private capital in order to administer the remaining $200 million in supplemental Section 108 loan guarantees, and thus to continue investing in the community (LACDB, 2000).

The bank also outlined two other options: maintaining the status quo, or terminating the Comprehensive Agreement early. The status quo option would continue the bank's operation "as is," including the management of its existing loan portfolio. Under this scenario, the bank would not attempt to invest the remaining $200 million in Section 108 loan guarantees and would agree to release a "reasonable portion" of these loan guarantees to the city as long as the bank received enough funds to achieve its business plan objectives (LACDB, 2000).

In outlining the third option, early termination of the Comprehensive Agreement, bank management recognized that the city might have the legal authority to force the bank to shut down operations for potential technical violations of the Comprehensive Agreement. Such a shutdown would involve the liquidation of bank assets, including its remaining loan and venture capital portfolios, and the use of liquidation proceeds to pay off any remaining Section 108 obligations. The bank's management made it clear that if the city chose this option, the bank would no longer be pursuing its primary mission of economic development and its officers and board members might elect to resign (LACDB, 2000). In December, city officials asked for additional time in order to further consider the three options.

FACTORS CONTRIBUTING TO THE LACDB'S PROBLEMS

The *Los Angeles Times*, among others, has blamed the Los Angeles Community Development Bank's rocky performance on the staff's and board of directors' lack of private sector lending experience. This, in turn, the paper charges, led to the bank selecting deals of poor quality. The bank then made matters worse by investing additional funds into those deals in order to keep the companies from failing ("Bank's Bitter," 1999). Other observers have blamed HUD for placing too many restrictions on the bank's operations, such as the requirement that companies must create one job for every $35,000 that the bank invested in them.

While an inexperienced staff and a heavy regulatory burden did not make the LACDB's job any easier, we found that these were outcomes rather than root causes. In fact, the bank's problems were primarily due to the Los Angeles political environment and to the LACDB's structure as a public-private partnership.

Problems Resulting From Los Angeles' Fragmented Political Environment

The common perception is that, "Los Angeles is both the least political and least typical large city in America" (Fulton & Shigley, 2000, p. 21). Nevertheless, the city's reputation for being apolitical is somewhat deceiving. It is more accurate to say that in Los Angeles, power is fragmented among many actors, leading to a "volatile political environment" (Andranovich & Riposa, 1998, p. 185). As one political scientist has written, the end result of this fragmentation is that "political authority is dispersed and if possible rendered impotent" (Jones-Correa, 1998, p. 20).

No one yet knows the ultimate impact of the new city charter, which only took effect in July 2000 and is designed to give the mayor and neighborhood organizations new powers (Fulton & Shigley, 2000). Until the new charter took effect, Los Angeles had been governed under a weak mayor system (Andranovich & Riposa, 1998), with city departments, such as the Community Development Department, reporting to both the mayor and the city council (Clarke, 1987). As Purcell (2000) points out, this diffuse structure has meant that "City government [has been] dominated by a 15-member City Council that plays both a legislative and management role" (p. 94).

This fragmentation of local power has shaped the LACDB. Mayor Riordan worked to keep the bank as independent as possible, arguing that too much city council involvement would politicize the process. Towards that end, the Mayor tried to insulate the bank from the city council by keeping control over the selection of the bank's board.

In Los Angeles' fragmented political system, the result was the worst of both worlds. City council members continued to involve themselves informally in the bank's lending decisions to businesses in their districts. At the same time, the council as a whole provided only minimal oversight over the bank's operations. Thus, for example, the council claimed it was taken by surprise by the bank's exceeding its lending limit in the Copeland Dairy deal (see Los Angeles City Council, 1999).

Tensions between the mayor's office and the city council were only exacerbated by Mayor Riordan's private sector background and attitudes (Purcell, 2000). As Erie, a political scientist, stated, "Riordan came in thinking he was the CEO" (Fulton & Shigley, 2000, pp. 22–23). Once he assumed office, however, Riordan was stymied by the limits that the Los Angeles political structure placed on the power of the mayor (Newton, 2000). In reaction, as another analyst observed, Riordan "prefer[red] to operate behind the scenes and retain[ed] many of his business confidants as unofficial advisors" (Purcell, 2000, p. 89; see also "Riordan's Hidden Government," 1998).

The case of the LACDB exemplifies Riordan's often commented upon penchant for "behind-the-scenes deal making for economic growth" (Ross & Levine, 2001, p. 20). The mayor relied on private sector advice and talent in structuring the bank, even though most of the bank's initial private-sector planners lacked the necessary experience and expertise to set up such a project. In the LACDB's case, the mayor's general preference for private sector solutions may have been exacerbated by his distrust of the Los Angeles Community Development Department, which had taken the lead in putting together the original, unsuccessful EZ application.

Furthermore, city council wariness of Mayor Riordan's private sector bias and approach forced bank planners to structure the LACDB as a non-profit. Had the bank followed the ShoreBank model, with a structure that included a for-profit depository institution, it would have had access to lower-cost capital that could have alleviated many of its future problems.

More generally, the case study presents evidence buttressing Purcell's observations about politics in contemporary Los Angeles. Purcell argues that Los Angeles' historical pro-growth consensus has been eroding over the past 15 years (Purcell, 2000). Some of the reasons for this erosion include Mayor Riordan's inability to replace his predecessor's pro-growth alliance among African Americans, liberal whites, and business groups (Purcell, 2000; Sonenshein, 1993). Furthermore, newly-mobilized racial and ethnic coalitions have come to dominate a more-powerful, more-assertive city council, one less willing to blindly support the old pro-growth business agenda (Purcell, 2000).

The LACDB found itself buffeted by the conflicts between Mayor Riordan and the city council. The city council never fully supported the bank, which it perceived as the mayor's project. Furthermore, the bank was not given the support by the private sector that one could have expected from the earlier, powerful Los Angeles pro-growth coalition. Very often over these past six years, bank officials felt orphaned, forced to navigate Los Angeles politics with little support from the public, private, or nonprofit sectors.

Problems Due to the Bank's Structure as a Public-Private Partnership

While structural mistakes can occur in any type of organization, we believe that the LACDB's public-private partnership status contributed significantly to its problems. The LACDB case provides a good illustration of six potential problems that can arise in public-private partnerships.

1. The structure was not a true partnership

Despite the federal government's advocacy of partnerships balanced among the public, private, and community sectors, the LACDB was not a true partnership. In contrast to two points out of Peters' (1998) five-point characterization of public-private partnerships, the community organizations and the private banks were not involved in a long-term enduring relationship with the LACDB, nor did they have a shared responsibility for the bank's outcomes.

Instead, the LACDB's partnership structure was reactive, designed by the bank's planners to fit the Clinton administration's priorities and thus acquire federal funds to help riot-damaged communities. As a result, while partnership language was used, neither the community nor the private sector was a true partner in this endeavor (see Kearns & Turock, 2000, for similar problems experienced by British urban partnerships).

For example, because of tight deadlines, LACDB planners did not involve the community in any substantive way in the initial planning process. Furthermore, community organizations were by-passed on later occasions as well, as HUD's own early performance report indicates (U.S. HUD, no date). This spotty community involvement was in direct contrast to the explicit goals of the Clinton administration in establishing the EZ and SEZ programs (for comparisons to other EZ sites, see Pitcoff, 2000; Swanstrom & Koschinsky, 2000; Weir, 1999).

In Los Angeles, community groups were not strong enough to assert themselves in the political process (Jones-Correa, 1998). They were not able to shape or guide the LACDB, and their technical skills were not developed enough to allow them to serve the bank as effective intermediaries. Instead, they served to illustrate Weir's (1999) statement about the "central flaw" in Clinton's entire EZ program, the premise that "consensual decisionmaking among groups with vastly unequal power can transform and empower poor communities" (p. 168).

In regard to the private sector, Mayor Riordan's own personal contacts resulted in his convincing the commercial banks to commit funds for future co-investment with the LACDB. Yet, with no enforcement power to ensure that the private banks fulfilled their promises, the commitment served as nothing more than window dressing. The Mayor's relationship with the commercial banks did not approach the status of a true partnership because no safeguards were established. In summary, neither the community groups nor the private sector banks were true partners with the LACDB. Thus, the bank's original planners failed to heed the warning that: "Any seriously asymmetric relationship may not create the symbiosis required for a successful partnership" (Peters, 1998, p. 27).

2. The partnership placed too much faith in business practices

Paradoxically, in the case of the LACDB, it was one of the public sector actors, the mayor's office, which placed too much faith in business practices. Mayor Riordan's actions in the LACDB case are a good example of Kanter's (2000) contention that the business sector now confers legitimacy on large-scale projects of all types, and that "business tools, techniques, methods, and language are being applied to any issue, well beyond their proven limits" (p. 167).

In this case, a belief in the primacy of the private sector resulted in the mayor's office assembling an initial bank planning committee that was composed mostly of private sector lawyers and financiers, with little developmental finance experience. The planning committee failed to consult with existing community development financial institutions from around the country. These institutions could have provided the planners with information about how the bank could have been structured more effectively.

The original planners' lack of knowledge of federal funding programs also led them to mistakenly believe that HUD would grant waivers for certain regulations related to such programs. As a result, the planners created an institution that was poorly structured because it did not reflect the limitations of the federal funds that capitalized it.

3. The partnership emphasized packaging and marketing, rather than systemic change

Clarke (1998) warned that public-private partnerships often involve only narrow business and government elites, rather than a wider variety of actors. They then have a tendency to use the partnership as a means of "packaging and marketing a 'storyline' about local projects [rather] than engaging in construction of a long-term strategic framework" (pp. 35–36).

We found evidence of this tendency at the LACDB. For example, during the planning process, Mayor Riordan pushed to increase the initial level of the LACDB's capitalization. To make the bank appear to be a more powerful response to the Los Angeles riots, Riordan negotiated with HUD for $200 million more in federal loan guarantees. In order to use this money, however, the bank first had to raise additional capital with which to administer this sum, a task that it has not accomplished to date. Furthermore, private sector loan commitments by commercial banks were counted as increasing the LACDB's capitalization even more; however, the private banks were not obligated to provide this capital, and with one minor exception, have not done so.

Although the LACDB was marketed as a large-scale bank that could respond to the conditions that spawned the riots, in reality, it was only a multi-million dollar loan and equity fund. Such a fund could be helpful to area residents and businesses. By itself, however, the LACDB could provide only marginal, rather than systemic, change (Pastor, et al., 2000). Furthermore, the good that it could do was undercut, in part, by the unreasonable expectations that its initial marketing had helped to create on the part of community groups, the press, and the public.

4. Partnering with the private sector brings with it dangers of conflict of interest and cost shifting

There is an inherent conflict of interest when private sector actors are involved in a partnership (Rosenau, 2000). In contrast to the prevailing ideological mood, businesses in most cases cannot act as "neutral conveners" (Kanter, 2000). Instead, as Rosenau (2000) reminds us: "Stockholders' interests must come first when the private partner is a for-profit organization. This makes for divided loyalty, and it conflicts with public policy obligations to society" (p. 234).

Whatever their original intention in making commitments to co-invest with the LACDB, the large commercial banks received positive publicity for their willingness to bring private money to the partnership, but never actually followed through on their commitment. As late as May 2000, Los Angeles City Council member Mike Hernandez told the *Los Angeles Times* that: "We want to know if the [private banking industry] is going to step up to the plate or not, because without [that commitment] the bank is not going to survive" (Romney, 2000b, p. A1).

Unfortunately, this pattern of behavior is not unique to this case. As Kanter (2000) observes, businesses involved in partnerships or other cooperative projects often receive up-front public relations benefits. If there is no contractual obligation, however, these businesses often do not follow through afterwards.

Furthermore, one can see the actions of the private banks as an indirect example of cost shifting, another problem common to public-private partnerships. In areas such as social service provision, private companies in competition with government agencies often cherry pick the easiest clientele, earning profits while at the same time shifting the costs of the harder-to-serve clientele unto the public sector (Rosenau, 2000).

In the case of the LACDB, commercial banks were able to cherry pick the best available deals in the target communities, because the LACDB could only fund deals that had already been turned down at least once by a private bank. C. Robert Kemp, the bank's original CEO, stated the bank's quandary quite explicitly. He told a reporter that the LACDB could not offer the commercial banks the kinds of low-risk, high-profit co-investment opportunities that those banks were seeking, because such deals would not meet the LACDB's own turndown provision (Leovy, 1998).

Ironically, the LACDB's turndown provision was added as bank policy during a time of recession, in part, to prevent commercial banks from shirking their responsibilities by withdrawing from the target areas. However, no provisions were put in place in the case of a subsequent economic revival, to make sure that these same private banks would not become competitors with the LACDB for the best loans.

5. The partnership produced a decrease in accountability

If the government is in charge of economic development, or any other function, then there are strong institutional safeguards that guarantee full public accountability. As political scientists point out, however, private sector actors do not have such safeguards. Therefore, by moving a function from the government to a public-private partnership, governments risk losing this accountability (Levine, 1989; Pierre, 1998).

In the case of the LACDB, accountability was lost due to the mayor's insistence that the majority of the bank's board be privately appointed. As a result, the city council exercised minimal oversight over the bank during its first years of operation, despite the city's ultimate liability for repaying the loan guarantees (Romney, 2000b). A more open, accountable structure may have helped the bank recognize its missteps sooner, and may have built greater city council and public understanding and support for the bank's actual mission and limitations.

6. The partnership structure produced a less efficient organization

Proponents of public-private partnerships argue that any decrease in accountability is more than offset by gains in efficiency. In the specific case of the LACDB, however, the partnership structure produced both less accountability and less efficiency. Rather than facilitating coordination across agencies and across sectors, the LACDB functioned under a complicated set of operating restrictions. The various participants in the partnership imposed these restrictions without regard as to whether they would work at cross-purposes to each other. These restrictions made the bank's work more difficult, depriving it of the flexibility it needed to adjust to a changing marketplace.

Federal EDI grants and Section 108 loan guarantees, used to capitalize the bank, came with limitations on the uses of funds and requirements for a specific level of job creation. Such rules are standard for HUD recipients. However, unlike most HUD funding recipients, the LACDB did not have access to other, less restrictive pools of capital, which could have provided the flexibility necessary to offset these restrictions.

The bank also was hindered by the city council's requirement that it hire 51% of its staff from those living within the Zone (Los Angeles City Council, 1998). Just how difficult this was to accomplish is highlighted by the fact that in 1997, only 38% of Zone residents had a high school diploma or equivalent, while most of the bank's positions required significant financial experience and expertise (LACDB, 1999a). Even more damaging was the turndown provision, which resulted in the LACDB being left with only the riskiest, most undesirable deals, as the Los Angeles economy improved in the 1990s.

In effect, therefore, the LACDB was structured in a way that increased the chances of its failure. From the beginning, it lost money even on loans that were repaid on time. Subsequently, as the Southern California economy improved, commercial banks began to increase the number of loans that they made in the LACDB's geographic area. In order to meet its own investment schedule, the LACDB was left with ever-riskier loans. It thus faced increasing numbers of problems in its portfolio, losing more money while becoming more marginalized.

CONCLUSION

The LACDB provides a good case study of the potential pitfalls of public-private partnerships. Many of these problems can be traced to the fact that the bank was not structured as a true partnership in the way that Peters' (1998) characterized partnerships.

In the Los Angeles political context, the fact that the LACDB was not a true partnership should be seen as a squandered opportunity. As one political scientist observed, Los Angeles is a city with very little interaction among its various sectors. Thus, "Los Angeles doesn't have *one* politics, but a series of parallel politics . . . The city's executive branch, its administration, and the city's non-profit organizations all have little contact with one another" (Jones-Correa, 1998, p. 20). Initially, the idea of the LACDB raised hopes that the organization could draw on the strengths of each sector, while increasing the voice of neighborhood leaders and organizations (Andranovich & Riposa, 1998) (see also Hula, Jackson, & Orr, 1997).

However, by not being structured as a true partnership, the LACDB became an organization that found itself facing the worst of all possible outcomes—an entity that was less accountable and less efficient. Most important, the bank's much publicized failures have led to increased public cynicism towards the Los Angeles government, towards the very idea of partnership governance, and perhaps most regrettably, towards the possibility that poverty can be addressed effectively.

The bank's current fate is once again at the mercy of city politics. The next Los Angeles city election is slated for April 2001, and California state term limits prohibit the current mayor and many city council members from seeking reelection. As a result, a number of council members are running for other public offices and are reluctant to take on any risky or controversial issues.

It would be very unfortunate if this reluctance, combined with the negative publicity that the bank has received to date, leads the city government to abandon the LACDB. Despite all its problems, the bank also has a number of largely unpublicized accomplishments. These include injecting $124 million in financing into businesses located in Los Angeles' poorest communities; the repayment to HUD of $45 million of the city's $100 million in total Section 108 obligations (LACDB, 2000); and the creation or retention of almost 2,300 jobs, 14% of which have gone to EZ residents. Perhaps most surprisingly, if the $22 million Copeland loss were excluded from the total, LACDB's default rate to date would be below the 18% to 20% anticipated at the bank's inception. To put that in perspective, the 25-year old ShoreBank confronted default rates of up to 90% during its early years of operation (LACDB, 2000; Osborne, 1990).

The LACDB also has learned from some of its mistakes. After originally inadequately considering existing developmental finance models, bank officials are now actively reaching out to the community development finance industry for new ideas. In fact, the LACDB is considering applying for certification as a community development financial institution (CDFI), which would enable it to apply to the federal government for additional grants and equity.

As city officials decide whether the LACDB will be restructured or shut down, the history of the bank provides a stark example of the importance of fashioning true partnerships, with guidelines and restrictions in place for all partners involved. In the case of the LACDB, the actual partnership created during the bank's formation and early years of operation was weak and superficial. The specific results in Los Angeles can serve as a warning to other US cities struggling to better their communities by forming public-private partnerships of their own.

ACKNOWLEDGMENTS: Many of the details in the case study were obtained through personal interviews with staff and officers at the Los Angeles Community Development Bank, the city of Los Angeles, and the U.S. Department of Housing and Urban Development, as well as Los Angeles community leaders. We wish to thank them for graciously sharing their knowledge and insights about the Los Angeles Community Development Bank. To protect their confidentiality, we do not directly cite any of these sources in our case study. We also wish to thank the editors and anonymous reviewers for their very helpful comments and suggestions. All errors and misinterpretations in the article remain our own responsibility.

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