NOTES ON ATTACHED "UNTAPPED MARKETS" TABLES AND TEXT

- This is an excerpt of some untapped markets analyses that HUD can polish and make ready for the President's use next week.
- We have 1997 numbers for central cities as a whole (Table 1) and expect to have updated estimates for "inner cities" (Table 2) in time for the President's use next week. The latter are 1992 for now.
- The up-front bullets include data on significant untapped market potential in Atlanta—both the city as a whole and the inner-city neighborhoods.

Close Hold / Not released by HUD yet

AMERICA'S CITIES ARE HOME TO LARGE, UNTAPPED RETAIL MARKETS

May 1999

OVERVIEW

The Nation's cities represent the number one emerging market for retail growth. Many of the Nations' leading cities suffer from significant "outshopping"—they have too little retail to meet the demand, and tap the buying power, of their own residents. While residents live in the city, and while many earn their wages there, much of their income is spent elsewhere—in the suburbs, on-line, or by mail order. For example:

- *The most "under retailed" large cities are losing one-fourth to one-half of the retail spending by their own residents to suburban areas, mail order, on-line shopping, and other retail outlets.* In 1997, over $39 billion was lost from New York City alone; $16.8 billion from Los Angeles; $8.6 billion from Chicago; and $1.1 billion from Atlanta.

- *Some of the most untapped, under-retailed markets are in the inner cities of our urban areas—for example, residents of the poorest neighborhoods in Atlanta spend about $127 million each year on retail outside the area.* If the employment of inner-city residents jumps faster than local retail services to meet that jump in buying power, then the "retail gap" can actually grow during periods of strong economic expansion in cities such as Atlanta.

UNDERSTANDING THE UNTAPPED CONSUMER MARKETS IN CITIES

The central-city retail market is enormous: the purchasing power of all central-city residents is estimated at $665 billion, meaning that retail demand just in America's central city is equal to that in all of Great Britain. Even the poorest neighborhoods have enormous purchasing power. According to a recent study by the Initiative for a Competitive Inner City (ICIC), an organization launched by Harvard Business School professor Michael Porter, the purchasing power of households in just the most economically distressed urban communities is more than $85 billion per year, more than the entire retail market in Mexico.[1]

Although some downtowns have posted impressive comebacks in terms of population and business vitality, the central cities as whole could capture a larger share of metropolitan consumer spending. The retail gap—the billions lost through outshopping—represents a major market opportunity for investors and retailers, as well as huge job creation potential for residents, community groups, and local leaders.

Our cities began as centers of commerce, creating a density of demand that is crucial to the success of much retail enterprise. As a recent *Washington Post* story acknowledged, however, in many cities—particularly older metropolitan areas such as Baltimore and Detroit—retail companies have not focused their attention on central-city

[1] The Boston Consulting Group and The Initiative for a Competitive Inner City, "The Business Case for Pursuing Retail Opportunities in the Inner City." See also Pricewaterhouse Coopers and The Initiative for a Competitive Inner City, "The Inner-City Shopper: A Strategic Perspective." Inner-city neighborhoods are defined for these studies as those in which median household income is no more

markets, instead concentrating on the growing suburbs. The *Post* added that in cities where retailers have re-entered the urban market, stores are posting record profits.

Despite this compelling evidence on the handful of major retailers "pioneering" their way back into cities, as a result of the decades-long suburban focus, cities now face a large "metropolitan trade deficit": central-city residents must travel to suburban locations, or shop by mail or other means, to buy the goods that they could purchase in the city. Put differently, urban residents in many major cities are "outshopping" to the tune of many billions of dollars each year.

Outshopping affects cities of all sizes in every part of the country. Table 1 presents the gap between retail sales in 1997 and estimated retail purchasing power in central cities for that year (only central cities with a gap are shown). In absolute terms, the biggest retail gaps are in our biggest cities: $39.4 billion in New York City, $16.8 billion in Los Angeles, and $8.6 billion in Chicago. But many other cities, large and small, face significant retail gaps as well: San Francisco, despite its role as a "destination retail" magnet for tourists, has a $2.5 billion gap; Denver, Colorado has a gap of $1.8 billion; and Atlanta $1.1 billion. And considering the size of the market gap as a percentage of total purchasing power in the city reveals the significance of this untapped retail potential in cities from small to large: Baltimore, Maryland (40%); Newark, New Jersey (46%); Gary, Indiana (55%); Alameda, California (36%).;

than 75 percent of the city average, the poverty rate is at least 50 percent greater than the city, and/or unemployment is at least 30 percent higher than the city average.

Newark, New Jersey (46%); Gary, Indiana (55%); Alameda, California (36%).; Portsmouth, Virginia (35%); and Richland, Washington (43%).

Untapped markets for retail are especially evident in the Nation's inner-city neighborhoods[2] *— areas with significantly higher rates of unemployment, poverty, and other signs of distress than their cities as a whole.* (See Table 2) The retail gap in New York City's distressed neighborhoods is, collectively, over $4.1 billion per year (or 50% of the total estimated retail purchasing power of those neighborhoods); Philadelphia $1.7 billion; Detroit $1.3 billion; Newark $885 million; and Atlanta $127 million. But the inner city areas in mid-sized and small cities are home to large untapped markets, too: for example, Memphis, Tennessee $491 million; New Haven, Connecticut $291 million; Mobile, Alabama $46 million; Omaha, Nebraska $79 million; and Toledo, Ohio $226 million.

Aside from this enormous untapped retail demand, central-city locations offer a critical advantage over suburban locations for retail businesses: *density of demand.* A few examples show the importance of retail density: retail demand per square mile in inner-city Boston, for example, is six times as great as it is in the Boston metropolitan area as a whole — and the Super Stop and Shop outlet in Boston's inner city is the highest-grossing of that company's 186 supermarkets; in inner-city Oakland, where retail demand per square mile is three times greater than in the Oakland metro area as

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than 75 percent of the city average, the poverty rate is at least 50 percent greater than the city, and/or unemployment is at least 30 percent higher than the city average.

whole, K-mart's SuperK store generates 50 percent more in sales than the chain's other outlets; in the Chicago metropolitan area, the "Little Village" area of West Chicago offers retailers $85,018 in spending power per acre compared with just $37,754 per acre in Kenilworth on the city's North Shore, despite the fact that the average household income in Kenilworth—the "wealthiest" Chicago neighborhood—is $166,536, compared with just $48,656 in West Chicago.

Even these figures understate the full market potential of inner city areas. The reason is the significant "information gap"—traditional sources of business data are ill-suited to the urban marketplace, and rich databases and models that are designed for urban markets are just now appearing.[3]

CONCLUSION

The huge untapped demand for retail goods in central-city areas means that our Nation's retailers are not taking full advantage of the profit opportunities in central-city markets; at the same time, the fact that central-city residents must do so much of their retail shopping outside of the cities means that the full benefits of our economic expansion have not extended to urban residents. In short, the retail density of the cities presents us with a chance to further of our most important economic goals as a people: to extend the record-breaking economic expansion by identifying new profit

[2] See footnote #1 or definition of "inner-city neighborhoods" in Appendix.
[3] See "The Business of Neighborhood Markets: A project of the Social Compact," Shorebank Corporation, Chicago, Illinois, May 1997. Contact: Robert Weissbourd, VP of Shorebank, at telephone 773-288-2400. Also, see Robert Weissbourd, "Filling the Information Gap," Center on Urban and Metropolitan Policy, The Brookings Institution, Washington, DC, March 1999.

opportunities, and to extend its breadth to those central-city residents and markets that have yet to fully participate in its benefits.

APPENDIX: TECHNICAL NOTES & TABLES

Income and purchasing power estimates for each city and suburb in the sample was estimated as follows. Total household income and total wage and salary income in 1989 for each city and its associated metropolitan area were taken from the 1990 Census. Total non-wage income in 1989 was calculated as the difference of total household and total wage and salary income in 1989. Total wage and salary income for 1997 was estimated as the 1989 total wage and salary income multiplied by the growth in the number of employed persons and by the nominal growth in U.S. labor income per employed worker (41.96 percent). Total non-wage income for 1997 was estimated as the 1989 total non-wage income multiplied by the growth in the population and by the nominal growth in U.S. non-labor income per capita (48.40 percent). Nominal growth in U.S. labor income per employed worker and in U.S. non-labor income per capita were calculated from the 1999 Economic Report of the President. Growth in the number of employed persons between 1989 and 1997 in each metropolitan area and city was calculated from data in the State of the Cities Data System.

Total household income for 1997 was then calculated as the sum of the estimated total 1997 wage and salary income and total 1997 non-wage income. From there, purchasing power was estimated as follows:

- Purchasing power for 1997 was set at 47 percent of total household income in 1997.
- All figures for the city's suburb were calculated as the difference between the metropolitan area figures and the city figures. For example, total suburban household income for 1997 was calculated as total metropolitan area household income for 1997 minus total city household income for 1997.

Data for retail sales were estimated by Market Statistics of New York, New York. Retail sales for each city and metropolitan area were obtained from the 1992 Census of Retail Trade. Next, estimates of retail sales for 1997 were made by multiplying the 1992 figures by the growth in sales tax revenue for each jurisdiction. In cases where sales tax data were not available, Market Statistics used changes in covered employment and wages in retail occupations as the relevant growth rates. As with income, retail sales figures for suburban areas were calculated as the difference between the metropolitan area and city figures.

"Inner-city neighborhoods" are defined for Table 2 as zip codes in which median household income is no more than 75 percent of the city average, the poverty rate is at least 50 percent greater than the city, and/or unemployment is at least 30 percent higher than the city average. (Note that the Census of Retail Trade reports at the level of zip code, not census tract.)

TABLE 1

Sheet3

'97 ESTIMATES

Retail Sales Gap, 1997 for Central Cities

City	State	Retail Sales 1997	Purchasing Power 1997	Gap = Purchasing Power - Sales
New York	NY	$ 40,567,690,000	$ 80,008,516,199	$ 39,440,826,199
Los Angeles	CA	$ 23,172,283,000	$ 40,007,025,602	$ 16,834,742,602
Chicago	IL	$ 16,607,220,000	$ 25,195,620,755	$ 8,588,400,755
Detroit	MI	$ 3,736,984,000	$ 7,241,200,091	$ 3,504,216,091
San Jose	CA	$ 7,144,256,000	$ 10,406,088,917	$ 3,261,832,917
Philadelphia	PA	$ 9,361,208,000	$ 12,284,765,813	$ 2,923,557,813
San Francisco	CA	$ 7,636,024,000	$ 10,099,089,496	$ 2,463,065,496
Washington	DC	$ 3,760,370,000	$ 6,214,785,277	$ 2,454,415,277
Dallas	TX	$ 11,665,282,000	$ 13,958,128,636	$ 2,292,846,636
Baltimore	MD	$ 3,338,908,000	$ 5,602,438,656	$ 2,263,530,656
Long Beach	CA	$ 2,240,325,000	$ 4,500,661,018	$ 2,260,336,018
San Diego	CA	$ 10,733,969,000	$ 12,692,544,078	$ 1,958,575,078
Denver	CO	$ 4,075,124,000	$ 5,845,009,677	$ 1,769,885,677
Seattle	WA	$ 6,013,024,000	$ 7,834,759,932	$ 1,821,735,932
Oakland	CA	$ 2,380,439,000	$ 3,955,300,349	$ 1,574,861,349
Phoenix	AZ	$ 11,790,356,000	$ 13,298,631,721	$ 1,508,275,721
Atlanta	GA	$ 3,727,587,000	$ 4,834,122,262	$ 1,106,535,262
Arlington	VA	$ 2,098,917,000	$ 3,102,405,023	$ 1,003,488,023
Milwaukee	WI	$ 3,952,982,000	$ 4,878,016,499	$ 925,034,499
Anaheim	CA	$ 2,261,536,000	$ 3,115,218,082	$ 853,682,082
St. Paul	MN	$ 1,825,439,000	$ 2,669,006,943	$ 843,567,943
Minneapolis	MN	$ 3,116,857,000	$ 3,958,705,649	$ 841,848,649
Buffalo	NY	$ 1,512,780,000	$ 2,327,592,379	$ 814,812,379
Newark	NJ	$ 929,668,000	$ 1,718,148,167	$ 788,480,167
Sacramento	CA	$ 3,103,067,000	$ 3,886,009,012	$ 782,942,012
Cleveland	OH	$ 2,735,056,000	$ 3,346,903,547	$ 611,847,547
Miami Beach	FL	$ 515,654,000	$ 1,125,375,924	$ 609,721,924
Augusta	GA	$ 572,568,000	$ 1,103,139,714	$ 530,571,714
Fort Worth	TX	$ 4,298,799,000	$ 4,814,128,992	$ 515,329,992
Rochester	NY	$ 1,392,576,000	$ 1,884,130,659	$ 491,554,659
Evanston	IL	$ 632,816,000	$ 1,112,604,380	$ 479,788,380
Irvine	CA	$ 1,663,766,000	$ 2,100,018,398	$ 436,252,398
Sunnyvale	CA	$ 1,613,173,000	$ 2,046,290,615	$ 433,117,615
Trenton	NJ	$ 217,519,000	$ 646,387,351	$ 428,868,351
Gary	IN	$ 345,780,000	$ 761,550,224	$ 415,770,224
Kansas City	KS	$ 786,875,000	$ 1,138,569,849	$ 351,694,849
New Orleans	LA	$ 3,504,929,000	$ 3,842,368,244	$ 337,439,244
Bayonne	NJ	$ 339,589,000	$ 675,794,688	$ 336,205,688
Berkeley	CA	$ 1,059,656,000	$ 1,389,205,294	$ 329,549,294
Alameda	CA	$ 570,765,000	$ 891,331,168	$ 320,566,168
Elgin	IL	$ 547,277,000	$ 863,914,778	$ 316,637,778
Cape Coral	FL	$ 602,148,000	$ 906,992,180	$ 304,844,180
Portsmouth	VA	$ 505,155,000	$ 781,438,249	$ 276,283,249
Jersey City	NJ	$ 1,770,510,000	$ 2,029,628,391	$ 259,118,391
Camden	NJ	$ 173,835,000	$ 427,632,114	$ 253,797,114
Riverside	CA	$ 2,540,110,000	$ 2,782,301,131	$ 242,191,131
Lorain	OH	$ 346,757,000	$ 569,911,807	$ 223,154,807
Dayton	OH	$ 1,037,862,000	$ 1,253,070,096	$ 215,208,096
Richland	WA	$ 265,723,000	$ 465,386,041	$ 199,663,041

WILL ADD % FOR ALL

40% (beside Baltimore)

46% (beside Newark)

55% (beside Gary)

36% (beside Alameda)

43% (beside Richland)

Sheet3

Palm Bay	FL	$	411,684,000	$	607,013,756	$	195,429,756
Rock Island	IL	$	174,394,000	$	355,998,970	$	181,604,970
Davis	CA	$	411,228,000	$	591,439,640	$	180,211,640
Pasadena	CA	$	1,644,324,000	$	1,818,160,772	$	173,836,772
Vallejo	CA	$	955,426,000	$	1,128,849,492	$	173,423,492
Port St. Lucie	FL	$	495,830,000	$	662,808,765	$	166,978,765
Schenectady	NY	$	414,589,000	$	558,173,969	$	143,584,969
Napa	CA	$	636,969,000	$	769,600,391	$	130,531,391
Coronado	CA	$	88,894,000	$	216,800,902	$	127,906,902
Suffolk	VA	$	394,409,000	$	513,979,127	$	119,570,127
East Chicago	IN	$	108,848,000	$	222,465,303	$	113,617,303
Newport News	VA	$	1,350,353,000	$	1,458,122,168	$	107,769,168
Galveston	TX	$	463,545,000	$	568,780,355	$	105,235,355
Paradise	CA	$	138,176,000	$	241,883,952	$	103,707,952
Lodi	CA	$	476,480,000	$	575,095,269	$	99,615,269
Bethlehem	PA	$	558,324,000	$	655,325,925	$	97,001,925
St. Louis	MO	$	2,692,407,000	$	2,788,247,324	$	95,840,324
Aurora	IL	$	1,033,884,000	$	1,127,559,074	$	93,675,074
Middletown	OH	$	411,957,000	$	494,667,023	$	82,710,023
East St. Louis	IL	$	97,972,000	$	178,910,618	$	80,938,618
Millville	NJ	$	168,197,000	$	246,226,569	$	78,029,569
Palm Springs	CA	$	595,403,000	$	661,741,320	$	66,338,320
Troy	NY	$	363,456,000	$	427,311,796	$	63,855,796
Utica	NY	$	430,519,000	$	491,107,496	$	60,588,496
Ventura	CA	$	1,273,199,000	$	1,324,950,940	$	51,751,940
Tempe	AZ	$	2,072,176,000	$	2,117,995,448	$	45,819,448
Lompoc	CA	$	279,825,000	$	324,906,140	$	45,081,140
Santa Cruz	CA	$	529,117,000	$	571,600,054	$	42,483,054
Temecula	CA	$	379,580,000	$	421,129,903	$	41,549,903
New Albany	IN	$	319,367,000	$	358,509,247	$	39,142,247
Reading	PA	$	548,938,000	$	584,074,720	$	35,136,720
Normal	IL	$	341,649,000	$	376,672,246	$	35,023,246
Lancaster	CA	$	1,016,771,000	$	1,050,629,475	$	33,858,475
Midland	TX	$	1,181,130,000	$	1,214,642,423	$	33,512,423
Provo	UT	$	680,425,000	$	706,850,095	$	26,425,095
Urbana	IL	$	243,854,000	$	269,061,113	$	25,207,113
Wilmington	DE	$	673,480,000	$	685,465,729	$	11,985,729
Petaluma	CA	$	608,179,000	$	619,842,309	$	11,663,309
Granite City	IL	$	268,712,000	$	277,954,171	$	9,242,171
Midland	MI	$	599,857,000	$	603,223,495	$	3,366,495
Binghamton	NY	$	416,850,000	$	419,243,995	$	2,393,995
Grand Rapids	MI	$	1,911,492,000	$	1,911,916,803	$	424,803

"Inner City" Retail Gap for Metropolitan Areas with "Inner City" Zip Codes Containing 5,000 or more Households

TABLE 2

Metropolitan Areas With "Inner City" Zip Codes	"Inner City" Retail Sales 1992	"Inner City" Purchasing Power 1992	GAP = Purchasing Power - Sales
New York, NY PMSA	$ 3,943,654,000	$ 8,099,826,145	$ 4,156,172,145
Philadelphia, PA-NJ PMSA	$ 3,002,331,000	$ 4,733,177,643	$ 1,730,846,643
Detroit, MI PMSA	$ 2,679,429,000	$ 4,059,456,574	$ 1,380,027,574
Newark, NJ PMSA	$ 401,119,000	$ 1,286,542,527	$ 885,423,527
Chicago, IL PMSA	$ 5,057,887,000	$ 5,803,096,311	$ 745,209,311
Washington, DC-MD-VA-WV PMSA	$ 2,076,299,000	$ 2,724,620,078	$ 648,321,078
Boston, MA-NH PMSA	$ 1,467,772,000	$ 2,106,396,895	$ 638,624,895
Memphis, TN-AR-MS MSA	$ 504,999,000	$ 996,239,302	$ 491,240,302
Cleveland-Lorain-Elyria, OH PMSA	$ 1,597,987,000	$ 2,081,914,136	$ 483,927,136
St. Louis, MO-IL MSA	$ 1,118,805,000	$ 1,464,050,013	$ 345,245,013
Milwaukee-Waukesha, WI PMSA	$ 543,637,000	$ 836,501,962	$ 292,864,962
New Haven-Meriden, CT PMSA	$ 369,409,000	$ 660,932,820	$ 291,523,820
Baltimore, MD PMSA	$ 2,600,822,000	$ 2,842,029,869	$ 241,207,869
Gary, IN PMSA	$ 287,750,000	$ 522,133,853	$ 234,383,853
Toledo, OH MSA	$ 422,475,000	$ 649,332,563	$ 226,857,563
Hartford, CT MSA	$ 729,629,000	$ 940,576,986	$ 210,947,986
Bridgeport, CT PMSA	$ 257,297,000	$ 453,466,522	$ 196,169,522
New London-Norwich, CT-RI MSA	$ 14,334,000	$ 197,864,770	$ 183,530,770
Lowell, MA-NH PMSA	$ 272,711,000	$ 430,367,132	$ 157,656,132
Atlanta, GA MSA	$ 1,397,008,000	$ 1,524,335,823	$ 127,327,823
Rockford, IL MSA	$ 227,394,000	$ 333,208,901	$ 105,814,901
Utica-Rome, NY MSA	$ 141,646,000	$ 235,278,424	$ 93,632,424
Reading, PA MSA	$ 149,768,000	$ 243,233,256	$ 93,465,256
Buffalo-Niagara Falls, NY MSA	$ 819,729,000	$ 905,276,143	$ 85,547,143
Peoria-Pekin, IL MSA	$ 141,115,000	$ 224,967,946	$ 83,852,946
Saginaw-Bay City-Midland, MI MSA	$ 175,706,000	$ 257,678,858	$ 81,972,858
Omaha, NE-IA MSA	$ 462,331,000	$ 540,835,507	$ 78,504,507
Cincinnati, OH-KY-IN PMSA	$ 650,802,000	$ 723,611,636	$ 72,809,636
Lawrence, MA-NH PMSA	$ 284,811,000	$ 354,781,425	$ 69,970,425
Ventura, CA PMSA	$ 107,762,000	$ 175,479,958	$ 67,717,958
Norfolk-Virginia Beach-Newport News, VA-NC MSA	$ 592,393,000	$ 652,165,322	$ 59,772,322
Harrisburg-Lebanon-Carlisle, PA MSA	$ 204,929,000	$ 258,690,802	$ 53,761,802
Allentown-Bethlehem-Easton, PA MSA	$ 207,155,000	$ 260,758,087	$ 53,603,087
Salinas, CA MSA	$ 101,519,000	$ 153,816,258	$ 52,297,258
Evansville-Henderson, IN-KY MSA	$ 16,836,000	$ 65,860,918	$ 49,024,918
Mobile, AL MSA	$ 123,573,000	$ 169,892,637	$ 46,319,637
Waterloo-Cedar Falls, IA MSA	$ 66,186,000	$ 102,313,403	$ 36,127,403
Fort Collins-Loveland, CO MSA	$ 103,852,000	$ 139,804,225	$ 35,952,225
Bakersfield, CA MSA	$ 121,301,000	$ 155,061,915	$ 33,760,915
Dayton-Springfield, OH MSA	$ 728,266,000	$ 754,477,171	$ 26,211,171
Waco, TX MSA	$ 64,688,000	$ 88,601,328	$ 23,913,328
Monroe, LA MSA	$ 75,723,000	$ 98,101,165	$ 22,378,165
Indianapolis, IN MSA	$ 95,436,000	$ 111,537,577	$ 16,101,577
New Bedford, MA PMSA	$ 134,801,000	$ 146,819,942	$ 12,018,942
Flint, MI PMSA	$ 381,244,000	$ 391,982,352	$ 10,738,352
St. Joseph, MO MSA	$ 49,683,000	$ 58,743,983	$ 9,060,983
Fresno, CA MSA	$ 303,862,000	$ 306,800,982	$ 2,938,982
Fort Myers-Cape Coral, FL MSA	$ 69,012,000	$ 71,793,274	$ 2,781,274

WILL ADD 7

U.S. Department of Transportation
Office of the Secretary of Transportation

400 Seventh St., S.W.
Washington, D.C. 20590

FAX TRANSMISSION COVER SHEET

DATE: 7/7/99

TO: Dawn Smalls

FAX NO: 456-1907

FROM: B.A. Rudolph
Deputy Chief of Staff
Office: (202) 366-6800
Fax: (202) 366-3956

Number of pages transmitted, including cover sheet: 5

Message:

TRANSPORTATION
QUESTIONS AND ANSWERS
FOR THE ANAHEIM/WATTS VISIT
July 6, 1999, NO. 2 Draft

Question 1:

How does transportation impact people who live and work in Watts and Anaheim?

Answer 1:

- Transportation investments are key to job creation -- you can't get to work without a way to get there.
- The majority of welfare recipients don't own cars and depend on public transportation to get to work.
- Being spurred in no small measure by investments such as the Alameda Corridor project to improve the rail operations between the Ports of Los Angeles and Long Beach to communities throughout our nation.
- Under President Clinton public and private funds totaling $2.4 billion dollars have been invested in the Alameda Corridor project ($400million in loan guarantees and $71 million in LA county apportionment.)
- The corridor will run through the Los Angeles Enterprise Zone encompassing some of the region's most impoverished communities, including South Central Los Angeles.
- The Alameda Corridor Transportation Authority (ACTC) has created an ambitious Job Development and Training program requiring contractors to train 1,000 local community residents and hire graduates for at least 30 percent of the total worker hours.
- This will provide 1.3 million hours of local labor and $50 million in wages and benefits to local residents.
- In Orange County, an 8-mile $1.1 billion project will expand I-5 from six lanes to ten lanes. The Orange County Transportation Authority is developing a 28-mile Transitway Corridor in central Orange County between Fullerton and Irvine.

Question 2:

How has the landmark transportation law, TEA-21, affected the Los Angeles region?

Answer 2:

- TEA-21 provides record level investment in the areas of safety, mobility, environment, economic growth and opportunity over its six year authorization.

- TEA-21 provides new roads and bridges, upgraded railroads, airports and seaports, and better transit service, creating a more livable community by design, where all residents have access to jobs, school, and daycare.

- California's 1999 apportionments to date from TEA-21 total about $2.7 billion authorization, compared with 1997 (the last year of ISTEA) apportionments and allocations of about $2.1 billion.

Question 3:

What are major transit projects in the area that will help to stimulate employment?

Answer 3:

- The Orange County Transit Authority, in partnership with the private sector, is developing a 28-mile Transitway Corridor linking economic centers within the Corridor, including the downtown Fullerton Transportation Center, downtown Anaheim, the Anaheim Resort Area, downtown Santa Ana, John Wayne Airport and several hospitals and regional shopping, employment, cultural, and entertainment centers.

- Ensuring that we meet the needs of our workforce in the new millennium, LA County's Welfare to Work Transportation Interagency Task Force received Job Access and Reverse Commute funding ($425,000) for a Transportation Information Project, providing individualized transit itineraries, carpool "match lists" and vanpool routes on-the-spot to help welfare to work applicants get to jobs, interviews, training, and child care.

- The replacement and expansion of Los Angeles County's aging bus fleet, plus the improvements in both bus and rail service, will help residents to get to jobs in the Los Angeles metropolitan area.

- The LACMTA has adopted and accelerated bus procurement program, procuring 2,095 new buses, half, which will be deployed by the end of the year, and the balance by 2003.

Question 4:

What has made a difference for "at-risk youth" in the Los Angeles region?

Answer 4:

- Our success is our Transportation Careers Academy Program (TCAP) that helps provide summer internships for 11th and 12th grade participants.

- In the past it has sponsored as many as 160 internships each summer at the MTA, and other transportation-related firms. Each TCAP intern earns $5.75 per hour during the six-week, 30-40 hours per week job experience.

- To encourage the private sector to participate, the MTA offers "two for one" support, whereby the MTA provides an intern "free" for each one paid for by the private firm. The program needs transportation-related support from corporations to provide (1) internship job opportunities for TCAP students, or (2) funding for interns at such firms.

- Before MTA budget cutbacks, the TCAP offered scholarships for its high school graduates to two-year and four-year institutions. Corporate support of a scholarship fund for TCAP graduates would restore this important program and strengthen the attractiveness of TCAP for LA's at-risk students.

- Using Federal Transit Administration and Department of Energy grants in 1995-96, TCAP established computer labs in its three charter high schools. These labs will fall increasingly "behind the curve" of the latest equipment. Corporate funding to purchase new equipment, as well as donations of used equipment, would greatly assist the students.

- MTA has established a Transportation Teaching Institute (TTI), which in previous years has sponsored six-week workshops during summer and "off track" periods for TCAP teachers to receive orientations regarding transportation career opportunities.

- The teachers use this time to prepare classroom curricula that relate academic work to topical transportation problems and opportunities. Because of budget cuts at MTA, this summer will be the first time since 1994 that this workshop won't be held. The TCAP would require $30,000-$50,000 to sponsor a workshop this summer. There is enough time to pull it together for this summer.

Question 5:

Does the TCAP target minority employment in the transportation industry?

Answer 5:

- This summer TCAP is serving more than 800 students.
- The Metropolitan Transit Authority is a major source of employment in the LA area -- of its 8500 employees, as of May 1, 1999, 79.7% are minorities.

Question 6:

How will the Alameda Corridor project benefit the residents, the economy and the environment of LA?

Answer 6:

- The U.S. Department of Transportation, working with a variety of public and private partners, has helped implement the Alameda Corridor project.
- This project will greatly improve freight transportation efficiency to the LA region by linking rail operations from the Ports of Long Beach and Los Angeles to destinations throughout the nation.
- The project will run through the Los Angeles Enterprise Zone, encompassing some of the most impoverished communities in the region, including South Central Los Angeles.
- By reducing truck traffic and eliminating at-grade rail crossings, the project will help reduce congestion and improve air quality.
- The project also opens up opportunities for the redevelopment of industrial sites throughout the communities that border the Alameda Corridor.
- The Alameda Corridor Transportation Authority (ACTA) has created an ambitious Job Development and Training program that requires contractors to train and hire local residents for at least 30 percent of the worker hours. This will provide 1.3 million hours of labor and $50 million in wages and benefits to local residents.

From the Desk of...
Jacquie Lawing

U.S. Department of Housing and Urban Development
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(202) 708-2236 Phone
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Fax

To: Lisa Green

Fax: 456-2223 **Pages:** 8

Phone: **Date:** 7/2/99

Re:

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*** **Comments:**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE OFFICE OF THE SECRETARY
WASHINGTON, DC 20410-0001

July 2, 1999

Memorandum to: Lisa Green

From: Jacquie Lawing, Deputy Chief of Staff JML

RE: New Market Q's and A's

In response to your e-mail from yesterday, HUD is supplying the following answers to your questions on New Markets. Please let me know if you have any other questions or concerns. Thank you.

EMPOWERMENT ZONES

Q. What is the purpose of the Empowerment Zone and Enterprise Community Initiative?

A. The Empowerment Zone and Enterprise Community (EZ/EC) Initiative is a key element of President Clinton's community empowerment agenda for America. Its purpose is to create jobs and business opportunities in the most economically distressed areas of inner cities and the rural heartland.

The EZ/EC Initiative focuses attention on certain designated urban and rural areas through a collaborative approach to community revitalization. It recognizes that the problems distressed areas face are often interrelated, and that communities know best how to tackle those problems. The foundation for this kind of collective action is community-based partnerships, which bring together residents, public and private agencies, community organizations, and local businesses. The Strategic Plan each community has developed concentrates on this unified approach to making neighborhoods viable places to live, work, and raise a family.

The EZ/EC effort provides tax incentives and performance grants to create jobs and expand business opportunities. It also focuses on activities to support people looking for work, such as job training, child care, and transportation.

What sets this Initiative apart from previous urban revitalization efforts is that the community drives the decision-making. Residents decide what happens in their neighborhoods, not federal officials in Washington. Each EZ/EC community has written quantifiable goals that determine how the money will be spent and what the results of the activity will be.

Q. What evidence do you have to support the success of the Empowerment Zone and Enterprise Community Program?

A. The EZ/EC Initiative has touched the lives of many who live and work in the Zones and Communities across the nation. The EZs and ECs have used their Federal seed money and created partnerships to leverage over 10 billion dollars in public and private investment. Strategies resulting from these partnerships have generated over 20,000 jobs, provided business assistance to thousands of businesses large and small, trained over 50,000 residents, educated youth and families, improved access to childcare, healthcare, and transportation, and increased the involvement in and safety of residents in their neighborhoods.

In addition, Standard and Poor's "Report Card on Empowerment Zones" stated that successful EZ/EC efforts can contribute to the improvement of a local economy and lead to an improvement in an issuer's credit rating.

Q. How does the Empowerment Zone and Enterprise Community Initiative differ from the New Markets Initiative?

A. The EZ/EC Initiative is a key component of the New Markets Initiative. Five of the six stops on the New Markets tour are in EZs/ECs. Many EZ/ECs are located in areas that provide a competitive advantage to business which increases profits and provides a better return on investment.

One of the principles of the Empowerment Zone/Enterprise Community Initiative is economic opportunity. Empowerment Zones and Enterprise Communities develop new private sector partnerships; attract private sector investments; promote business startups and expansions; and provide jobs and job training. The initiative has promoted access to capital through vehicles such as various loan funds and the largest community development bank in the country. The initiative uses tax incentives, such as the EZ Wage Tax Credit, and Title XX Social Service Block Grant funds as flexible seed money to provide financial assistance to businesses. Through EZs/ECs across the country, the initiative works with local communities in identifying business opportunities and forms of technical assistance to promote business activities in underutilized areas.

EAST ST. LOUIS

Q. Why was the Walgreens that you are visiting picketed when it opened?

A. While this is a local issue, it is our understanding from press reports that a local security firm that did not bid on the security contract for the building, called on local residents to picket the Walgreens until they could meet with company officials to discuss why they were not chosen for the contract. We understand that Walgreens has expressed their willingness to discuss the matter with the local, African-American-owned firm to resolve any misunderstanding. City government is very pleased with the operations of the Walgreens.

Q. What is the connection between the developer of the shopping center and the Casino Queen riverboat casino?

A. Jim Koman's family is one of a series of investors in the Casino Queen projects which include the river boat and hotel. He is currently developing the shopping center -- 50,000 square feet, $10 million project -- which will house Walgreens, Blockbuster, Sav-a-Lot, State Farm Insurance, Amaco and other retail stores when complete. Koman Properties, his development company, is not an investor in the casino.

Q. ICIC Venture is announcing a major new investment fund today. Isn't its founder a big supporter of George W. Bush?

A. ICIC is announcing the launching of Inner City Ventures, a private equity fund focused on business opportunities in inner city areas with untapped market potential. The fund exemplifies the very capital commitments and venture expertise that the President has highlighted in the New Markets Initiative. In fact, NMI would create a whole new generation of inner city (and rural) equity funds to do this important work. This idea--and it's time has come--has sparked tremendous bi-partisan interest. It doesn't belong to any one leader or any party. It belongs to America's communities and reflects the financial discipline and energy that private equity investors alone can bring, with entrepreneurial government acting as a partner, not driving the train.

KENTUCKY HIGHLANDS

Q. How has the Kentucky Highlands Investment Corporation helped to improve economic conditions in the Appalachia Region?

A. KHIC has helped to improve conditions significantly. In 1994, HUD designated KHIC a Tax Credit CDC, which enabled the non-profit to leverage $2 million in private funding from Bankers Trust Corporation in NYC. In addition, HUD granted KHIC an EDI grant of $2 million in 1998 to establish working capital lines of credit for the expansion of existing companies and new start-ups, including: Eagle Carriers, a trucking company that employs 198 people; Sports Products, Inc., a manufacturer of sporting goods projects that employs 51 people; and Southeastern Kentucky Rehabilitation Industries, which employs 181 people.

PHOENIX

Q. Why is Phoenix a New Market. Isn't it a prosperous thriving city?

A. The City of Phoenix is one of the more rapidly growing communities. However, the focus of the Phoenix visit is the Enterprise Community ("EC"), a 19.9 square mile area within the City of Phoenix and the largest designated urban Enterprise Community. This area, located in South Phoenix, has not traditionally participated in the growth of the Phoenix economy. In fact, the EC is an area with 48% of the population living below the poverty level and with 60% of the population having less than twelve years of education. Traditionally, median income within the EC is about one-third of the City of Phoenix as a whole and unemployment persisting at three times the citywide average. The Phoenix EC is one of the areas that this expansion has not included.

The Administration believes that a rising tide should lift all boats. The Administration's EC initiative and New Markets Initiative represent *a continuum of economic empowerment* that can revitalize nontraditional and underserved communities by enhancing the resources that already exist within those communities.

Q. Why is one of your stops on this tour focused on the Hispanic community but none of your other stops have focused on a specific minority community?

A. *HUD did not propose Phoenix as one of the stops on this tour, nor did we propose the theme. Please refer this question to the appropriate source.*

Q. What makes Phoenix an appropriate site for the New Market Tour?

A. The *continuum of economic empowerment* featured during the visit shows how the Administration's policy of economic empowerment has allowed a HUD designated enterprise community to leverage its public-private partnerships.

Chicanos Por La Causa, a Community Development Financial Institution serves the Hispanic community and has created success stories, one of which happens to be **Botus Juarez Western Wear. La Canasta Mexican Foods, Inc.** has contributed to the economic revitalization of its neighborhood through the construction of a new tortilla manufacturing facility. **Moreno Welding, Inc.** was one of the first beneficiaries of the loan program created by leveraging HUD's Community Development Block Grants and is one of the greater success stories in the area.

In addition, it is critical to note that one of the focuses of this visit is to highlight the formation of the first Small Business Investment Companies ("SBIC") created under the President's New Market Initiatives. Focusing again on the public-private partnership, two private industry groups are funding this SBIC to the tune of $3 million. The funds focus will create jobs and spur economic development in new and underserved markets that would traditionally not have access to this type of capital.

PINE RIDGE RESERVATION

Q. Isn't the New Markets Initiative focused on broad economic development and investment in business? Why are most of your announcements here related to housing investment?

The first economic development project on a reservation must be housing and a finance/banking system. The old line is true: "You can't get out of bed and go to work if you have no place to sleep the night before." Bankers and homebuilders will attend the Pine Ridge Home Build, demonstrating their commitment to financing mortgages and construction. Housing construction and infrastructure (roads, sewer etc.) are the foundation for economic development. Economic development flows from rooftops to retail.

Q. Conditions on reservations seem so dire with unemployment so high. How will people how live here be able to afford the mortgages that these programs create?

A. Through President Clinton's One Stop Mortgage Center Initiative, efforts are underway to streamline federal regulations and improve coordination among federal agencies to pave the way for more homeownership on Indian Reservations. Lenders, attending the HUD conference and participating in the President's visit, are eager to make loans available to eligible homeowners. There are families on reservations who can afford mortgages. (See answer above with examples of percentages.) Government, in partnership with lenders, the private sector, and the tribal governments, simply has to remove the barriers and show families how they can join the American dream.

Pine Ridge is the poorest reservation in the country; however, there are families with incomes high enough to support a mortgage on the reservation. For example, 16% of families on the Pine Ridge Reservation have incomes higher than the state nonmetro median family income. Most reservations have higher percentages. Isleta Peublo in New Mexico has 48% of its families above the state nonmetro family income. Flandreu Reservation in South Dakota; 34%; Mississippi Choctaw, 29; Cattaraugus Reservation in New York, 25%; White Earth in Minnesota, 18%. Many of these families live in housing authority homes – built and subsidized with HUD dollars. As a result, grant funds cannot meet the total housing needs. Shared Visions will provide a model in how to utilize NAHASDA funds for downpayment assistance, thereby stretching grant funds as well as utilizing private financing vehicles to expand the housing stock.

LOS ANGELES

Q. Hasn't the Los Angeles Empowerment Zone had difficulties in the past? What is the current status? What is the status of the LA Community Development Bank and the problems it has experienced?

A. Recent negative articles in the *LA Times*, *USA Today*, and the *Wall Street Journal* focused on failed loans and not the complete picture of what the LA Bank has accomplished. The LA Bank is now on track and has had successes:

- Approved 159 loans/ investments totaling $118.3 million; financial commitments total $74.2 million in loans/investments.
- These financing activities are projected to create or retain nearly 3,500 jobs. Of the 979 jobs already created, 24% have gone to EZ residents.
- The bank is confident it will reach the 51% local job creation goal. Borrowers have two years to meet the resident hiring requirement.
- Since its start-up in 1996, the LACDB has grown eight times more rapidly than any commercial lender in the LA-Long Beach MSA.
- Committed $70 million ($58 million funded and $12 million in the funding pipeline) since its

inception less than three short years ago. This is especially impressive given that the Bank is already equal in loan volume to its long established competitors in the area (4 small commercial banks) over that period of time.

- The bank is providing capital to a divers industry base that reflects the city's growth industries. These industries include wholesaling, manufacturers, services, finance, insurance and real estate.
- The bank utilizes community-based organizations (CBOs) to generate deal flow for microloans and other small business loans.

TOUGH BUSINESS

Access to capital for all but the strongest companies in the inner city is severely limited. That is why the LA Bank was created. The LA Bank deals with those businesses turned down by traditional lenders. There are gonna be defaults. That is the nature of the loan business. But the defaults ($2.5 million) and troubled loan levels (16%) are reasonable given the nature of the beast and the losses do not threaten the viability of the Bank.

The commercial banks that said they would help with over $200 million in co-lending, Union Bank, Wells Fargo and Bank of America, have not come to the table. Their lack of commitment has made the LA Bank's lending operations less flexible because the primary source of the money for loans is HUD, which by regulation, has many restrictions.

FALSE CLAIMS

- The LA Times Article claims the LA Bank has broken regulations: the Bank vehemently denies this allegation. In fact, the LA Bank's compliance is vigorous. That is why the Bank is monitored every 90 days by independent auditors which have never found the Bank in noncompliance with applicable HUD laws and regulations.
- Both the Wall Street Journal (WSJ) and the Los Angeles Times (LAT) quoted failed borrowers as the source of "complaints" about the bank using heavy handed tactics. Both borrowers defaulted on loans to the Bank. The LA Times' use of failed borrowers as sources is akin to asking a murderer convicted by a jury if he was responsible for the crime. Chances are the murderer would not blame himself. Neither does a failed borrower.
- LA Times tried to make it appear the Bank was short on creating jobs by taking a "to date" snapshot which is unfair. The projected jobs are not created the day the loan is funded. They are created based on the agreement worked out with the borrower. In fact, the Bank has already created 132 for residents and over the two-year evaluation period it is on track to create 750 jobs.

HUD Review

The LA HUD Office recently completed a compliance review of the LA CDB. The HUD review found that the LA Bank needs to improve linking EZ residents to jobs created with the LA Bank loans. The City must also improve its efforts to get the LA Bank the names of EZ residents that are available for jobs created with the LA Bank loans.

Q. President Clinton visited Watts as long ago as 1992 during his campaign. What has changed since then? Have things gotten any better for this community during the Clinton Administration?

A. Like most cities, Los Angeles, and Watts within it, are coming back thanks to a record-breaking economic expansion nationwide. The Clinton-Gore fiscal policies and community empowerment agenda are driving the boom. Unemployment and poverty are down in Watts since 1992 thanks to this recovery and thanks to major commitments by HUD and other federal agencies. The Federal Government has been an active partner with local leaders in the private, public, and nonprofit sectors, working in Watts and other distressed, untapped market areas of Los Angeles. These efforts are already stimulating major new investments of private capital and expanding the job base. In addition, a wide array of Clinton Administration initiatives is supporting workforce development, youth development, crime prevention, community health and other vital activities that are making Watts a better place to live and do business.

Date: 07/02/1999 11:47 am (Friday)
From: Jim Newby
To: Caron Spector
Subject: Re: Fwd: REVISED: Q&As - Urgent - Need Repsonse by 7/2

Responses to Questions in order received

Q. What is the purpose of the Empowerment Zone and Enterprise Community Initiative?

A. The purpose is to demonstrate that sustainable community and economic development is best achieved when the residents of the community are directly involved and "own" in identifying and resolving local problems. By combining flexible funding with local leadership, the program helps impoverished communities address the structural problems rahter than employing "stovepipe" solutions that have been traditionally employed.

Q. What eveidence do you have to support the success of the Empowerment Zone and Enterprise Community Program?

A. We have been able to track the success by the number of new jobs and businesses created, the changes in the unemployment rate and poverty indices since the communities received designation as eithe an Empowerment Zone or Enterprise Community. For example, in the rural zones and communities we know that 10,000 jobs have been created or saved since designation and that unemployment rates have dropped significantly in these areas. The designated communities have leveraged close to $1 billion in investment capital from a variety of public and private sources with most of it coming from the private sector.

Q. How does the Empowerment Zone and ?Enterprise Community Initiative differ from the New Markets Initiative?

A. They actually complement each other. The New Markets Initiative will help introduce the private sector to the investment opportunities found in in urban and rural areas that have endured decades of persistent poverty represent the largest untapped market available immediately to the private sector.

Q. How has the Kentucky Highlands Investment Corporation helped to improve economic conditions in the Appalachian Region?

A. The Kentuck Highlands Investment Corporation (KHIC) has a long and proud tradition of stimulating new investment in the area it serves. KHIC has sucessfully used a mix of private capital and Federal funds to create new businesses. The Developmental Venture Fund, one of the enterprises of KHIC has committed more than $113 million to 24 projects which have created or saved more than 3,000 jobs. The fund has capitalized a low-income credit union with more than 800 members and help start the Fantasy Custom yachts, a luxury house boat manufactureer which currently employs 119 people and has annual sales approaching $10 million.

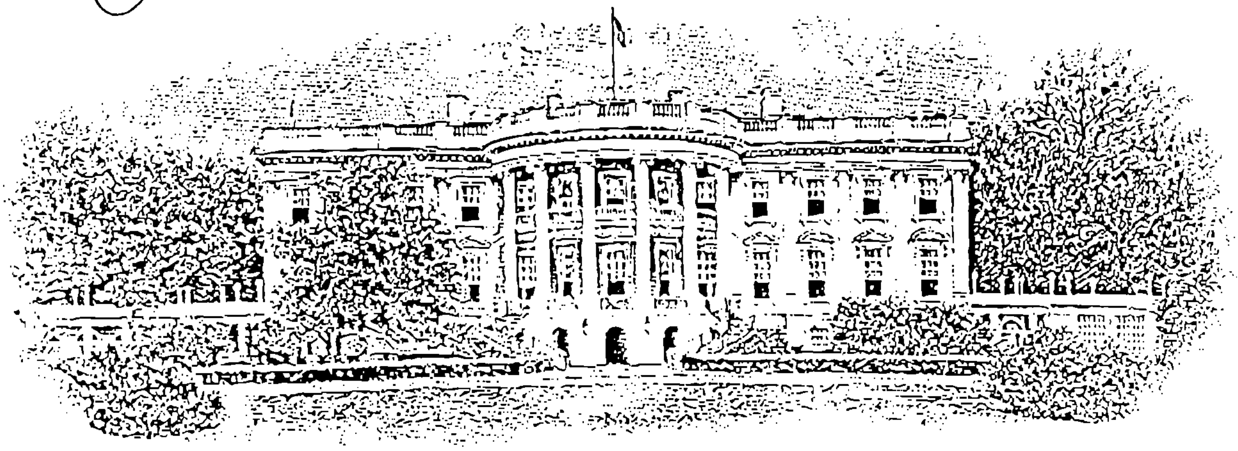
Q. What is the role of the KHIC in the Empowerment Zone?

A. As an established entity involved in economic development, KHIC has taken the lead role in the zone and is continuing to provide the leadership and direction needed to improve the living conditions of the residents of this area. KHIC is to be congratulated for its commitment to improving the community and the local economies.

>>> Caron Spector 07/02/99 09:50AM >>>
Please see attached and respond ASAP to Clyde Williams. Thanks.

Q&A

THE WHITE HOUSE



FAX COVER SHEET

To: Lisa Green

From: Lynn Cutler

Date:

No. of Pages: 7

Phone:

Fax: 6-2223

Message: A question needs to be added on the trust issue. Thanks.

President Clinton
Indian Trust Funds
Talking Points
7/2/99
Rex Hackler- Director of Communications-Indian Affairs

Background: There is a Herculean effort taking place in the Department of the Interior and the Bureau of Indian Affairs to fix the Indian Trust Fund System. We are making remarkable progress on making a system designed never to work 112 years ago with the passage of the Dawes Act, into a remarkable land management system. The real heroes of this fix are: Secretary Babbitt and the Clinton Administration, the First Secretary of the Interior and administration in over a century to show the political will to fix this system. Kevin Gover, for his leadership of the Bureau of Indian Affairs, and the American Indian employees of the BIA. The BIA is made up of 93% American Indians, and they want this system fixed worse than anyone. BIA employees have been holding this system together with scotch tape and baling twine, and they are now the people designing the first working trust system in history. TAAMS (Trust Assets Accounting Management System) was implemented last week in Billings, Montana. It worked beautifully. To fix this system it will take: the implementation of TAAMS and the record cleanup that goes with it, scheduled to be completed early in 2001; a settlement in the Cobell case; and Congressional action to cleanup the problem of fractionated heirships.

The Indian Trust Fund system has been in disarray from the time the Dawes Act was passed in 1887. This system was never designed to work, the act was designed to grab as much Indian land as possible, and it worked. Over half the land controlled by Tribes in 1887 was sold off as "surplus land". The management of this broken system has been a continuing problem for over a century. But right now, we are getting it fixed.

Secretary Babbitt and this administration are the first to make the incredible effort to get this system fixed. They are the first to show the political will and the respect for the Tribes and the Individual Indians to make this system work. Every other administration ignored this problem and passed it along to the next administration dating back to the Hoover administration. This administration is fixing it.

TAAMS was implemented in Billings, Montana last Friday (6/25/99) and it worked beautifully. Those who have seen the Trust Assets Accounting Management System say it may be the best land management system in the country. The reports I have heard say it is remarkable, and it will allow the BIA to do in seconds what used to take days to do. It will allow the Tribes, and the Individual Indian Money Account holders to get information about their holdings in the Trust system in seconds, by signing onto a computer and typing their account numbers and passwords.

The real heroes in getting this system fixed have been the hardworking employees of the Bureau of Indian Affairs. The BIA is made up of 93% American Indians, and they want this system fixed because they know it affects their tribes, their communities, and their families. For the first time, they have been given the resources to fix this system, and the leadership of the Bureau, Assistant Secretary Kevin Gover and Deputy Commissioner Hilda Manuel have made getting the Trust system fixed their personal crusade. I have no doubt they will get it done.

United States Department of the Interior

BUREAU OF INDIAN AFFAIRS
Billings Area Office
316 North 26th St.
Billings, Montana 59101

PRESS RELEASE

June 25, 1999 Contact: Rex Hackler (406)247-7943

TAAMS WORKS!!!

Today in Billings, Montana the Bureau of Indian Affairs unveiled the Trust Assets Accounting Management System. Secretary of the Interior Bruce Babbitt hit the switch that officially started the pilot project of TAAMS. The program designed by the Trust management employees of the BIA and implemented by Applied TerraVision, Artesia Systems Group, worked perfectly.

Secretary Babbitt, clearly impressed by the new Trust management tool, remarked, "This is the first step toward a trust management system that works for the Tribes and for the individuals across Indian country." Babbitt praised the employees of the Bureau of Indian Affairs as the creative force behind the system design. "I knew the people of the BIA would come through and they did. I knew they could do it."

The TAAMS system will enable the Bureau of Indian Affairs to keep accurate Indian land records, distribute trust income to individuals, send notices to individuals regarding the leasing of their lands, automatically record accounts receivable, certified title status, reports, and a myriad of other functions.

Assistant Secretary Kevin Gover said, "This system is state of the art, and it has been designed by those who know exactly what the Trust Management System needs to do for Tribes and individuals." Gover gave credit to the Congressional appropriators for funding the system, to Secretary Babbitt for his leadership, but mostly to the employees of the Bureau of Indian Affairs. "These people worked the long hours, and they have proven that given the resources, they can fix this system. The American Indian employees of the Bureau of Indian Affairs are the true heroes of the day."

David Orr, President of Artesia Systems Group, the contractor for the system echoed that sentiment. "Our company implemented the system designed by the BIA employees. They are the experts on what this system should be, and they are people who are making this system work. I have never seen a group of people more committed to making a project work than the people of the Bureau of Indian Affairs, they have been a joy and an inspiration."

Gover went on to say, "Nobody wants the Trust Fund Management system fixed more than the American Indians who make up the BIA. They know this system affects their tribes, their communities, and their families."

The TAAMS system will now undergo a 60-day series of tests and the testing of the application in every possible situation. Dom Nessi, the TAAMS project manager for the BIA stated, "We are now going to put this system through its paces. This system looks very good now, but our people are certain we can make it even better in the next two months. We are on the way to having the best land management system in the Nation." Because the TAAMS system is a modified Commercial Off the Shelf Software system (COTS) changes and adaptations can be made quickly and easily. During the testing and data cleanup period in the Billings Area Office, if changes are necessary, they will be made to make the system work even better.

"This is a huge step toward creating the first working Trust Management System for Tribal and Individual accounts", stated Assistant Secretary Kevin Gover, "we did not break this system, but we are going to fix it. This is a case of Indians solving an Indian problem created by neglect."

Order from chaos? New BIA records system to debut in Billings

By LORNA THACKERAY
Of The Gazette Staff

Interior Secretary Bruce Babbitt and Kevin Gover, assistant secretary for Indian affairs, will be in Billings Friday to inaugurate a new automated records system aimed at clearing up a bookkeeping nightmare that has threatened the Bureau of Indian Affairs' ability to manage the trust income of Indian tribes and their members.

The new computer system combines BIA land title records with a separate BIA database containing the information about income from those lands. The expected result, according Dom Nessi, who is charge of implementing the system nationwide, is better and quicker service to account holders. Nessi is in Billings this week working with the new system, called the Trust Asset Accounting Management System Initiative, or TAAMS for short.

"It's going to change this organization forever," he said this week. "Everybody on the team feels we are doing this for generations of Indian people to come."

One of the longest-running criticisms of the BIA is its antiquated record-keeping system, which has lost track of millions of dollars owed to tribes and tribal members. The Department of Interior and the BIA are in the midst of defending themselves against a lawsuit filed in Washington, D.C., which charges that the government has failed to provide accurate account balances for 300,000 individual Indian accounts and 1,600 tribal accounts.

Last fall, the Billings Area Office was chosen as the pilot office for the new system because its land and money records were in good shape and its records systems were already automated, according to Keith Beartusk, Billings area director for the BIA.

Area realty officer Clark Madison, who is coordinating the pilot project; area land records officer Darryl LaCounte; and training coordinator Vianna Stewart have been on the road since the project was assigned to Billings. They have working with the computer contractors, the BIA records center in Albuquerque, N.M., and BIA officials in Washington to develop a system that can do what BIA needed it to do.

What the group is trying to do is make order of a chaotic system of dealing with Indian lands that began in the 1880s, when Congress approved various allotment acts that divided reservation lands among individual tribal members. The practice continued until 1934.

In Montana, the process of allotting lands didn't begin until shortly after the turn of the century. Most of the original allottees are long gone. As allottees died, most without wills, their estates were divided among their heirs. With the death of those heirs and subsequent heirs, ownership interests often became so divided that they were effectively rendered worthless.

The result is called "fractionation" and fractionation is the root the BIA financial mess. The BIA must register each change in title as it passes through numerous generations. Ownership interests, sometimes as small as 1/500,000, must be recorded. Whatever income generated on those lands — agricultural or mineral leases and timber contracts, for instance — must be divided among all owners no matter how small that interest is. Sometimes that interest earns only a fraction of a cent.

Two years ago, the Billings Area Office was keeping records for 48,000 individual tribal members in Montana and Wyoming. Those individuals had collectively accumulated more than 400,000 ownership interests. The area office probably serves an equal number of people who live outside the Billings area, but who have interest in land in Montana or Wyoming.

Two separate automated systems were developed to keep track of the data, Beartusk said. One maintained title records and the other the financial data. The new computer system will combine both databases, vastly improving the agency's ability to determine what is owed to account holders. It will also make it easier to follow ownership of even the tiniest fraction of an interest in a land parcel.

Beartusk said the new computers and software will be greater than the sum of the two databases. BIA will have the flexibility to put together data that would have taken months to gather by hand. For instance, the computer will be able to spit out reports tallying all land interests owned by members of the Crow Tribe on other reservations throughout the country or calculate the land interests owned by non-member Indians on the Crow Reservation.

Some of the computers the BIA has been relying on to manage the huge task of maintaining its records are hooked to vintage 1960s or 1970s mainframes, Beartusk said.

The Department of Interior has dedicated $160 million to improving and updating its system.

"BIA people have not been blessed with the best resources over the years," Nessi said. "It's about time we give them the best."

The first step in the process, one that has been ongoing for the last two months in Billings, is cleaning up the databases. Beartusk said that could include such things as making sure that married names are recorded or minor name discrepancies are reconciled. About 20 people from DataCom, an Oklahoma City-based Indian contractor, are in charge of the work with the assistance of the local staff.

Applied Terravision of Dallas, a company that has experience in designing systems to help large oil and gas producing companies manage land leases and handle income distributions, is in charge of putting the main system together.

Billings will take the system online Friday, but will ease into full operation over the next three weeks. Once BIA officials are happy with how things are working in Billings, the system will be gradually introduced to the other 11 area offices. Juneau, Alaska, is next on the list. The system will also be implemented at 86 BIA tribal agencies and by 130 tribes who contract with BIA to do their own realty work.

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▼ **INDIAN TRUST ACCOUNTS**

The Billings Gazette

JUN 26 1999

Babbitt presses button, starts new BIA system

By CLAIR JOHNSON
Of The Gazette Staff

Interior Secretary Bruce Babbitt launched a new records system in Billings Friday designed to clear up trust accounts that his agency manages for American Indians, saying it was a step toward restoring the integrity of reservations broken up by allotments.

Cutting a red ribbon wrapped around a computer and pushing a button on the keyboard, Babbitt ushered in the new system that combines Bureau of Indian Affairs land title records with a separate BIA database containing information about income from those lands. The new program is called Trust Asset Accounting Management System Initiative.

Babbitt and Kevin Gover, assistant secretary for Indian affairs, told more than 100 people — including tribal leaders from Montana and Wyoming — gathered in the Federal Building they were committed to ensuring that the new system would correct an accounting nightmare that began more than a century ago.

BABBITT
In Billings

The department plans to spend $147.4 million in the next three years to improve its handling of Indian trust accounts. About $60 million will be spent on the computer system and $54 million on cleaning up data.

In opening ceremonies, Burton Pretty On Top, a Crow spiritual leader, conducted a prayer and pipe ceremony in which Babbitt, Gover and tribal leaders waived smoke from a sweet grass braid over themselves and puffed a long, beaded pipe whose bowl was shaped like a duck's head. A drum group from Crow Agency performed a flag song.

David Orr, executive vice president of Applied Terravision, Artesia Systems Group, the Texas-based contractor, gave a demonstration of the new system.

Crow Tribal leader Clara Nomee told Babbitt that she was encouraged that the government is upholding its treaty obligations. She also presented the secretary with a beaded bolo tie, which he promptly put on in place of his necktie.

One of the longest-running criticisms of the BIA is its antiquated record-keeping system, which has lost track of millions of dollars owed to tribes and tribal members from leases, royalties and court settlements.

A group of account holders are suing the Department of Interior and the BIA in Washington, D.C., stating that the agencies have failed to provide accurate account balances for 300,000 individual Indian accounts and 1,600 tribal accounts. The individual accounts are worth $500 million and the tribal accounts are worth $2.5 billion.

Gover said the Billings Area Office of the BIA, which includes Montana and Wyoming, was selected as the pilot office for the new system because it had the right people for the project and had a good diversity of resources that are tracked — like oil and gas royalties, mineral production, agriculture leases and timber.

In brief remarks, Babbitt said the sad history of allotments began with one of the most misguided laws in American history — the General Allotment Act. He said the 1887 legislation was a way to break up Indian reservations and to open them to settlement. Babbitt called the act a "dagger aimed at the heart of Indian culture" because it said, in essence, there was no place in America for Indian tribes to hold their land and determine their future.

With the new records system, Babbitt said the government is beginning to square up the history of its trust obligations.

The problem goes back to the 1880s when Congress approved various allotment acts that divided reservation lands among individual tribal members. The practice continued until 1934. Many Indians sold their land, and more than 10 million acres of the trust land base was lost between 1887 and 1934. The land was to be held in trust and usually was passed down to the owners' heirs. Through successive generations, the number of heirs often grew to the point that dozens of people could own an interest in the same parcel of land, resulting in fractionation of the property.

Today, the average parcel has about 40 owners, said Rex Hackler, BIA's communication director.

BIA must register each change in title as it passes through many generations. Ownership interests, sometimes as small as 1/500,000 must be recorded. No matter how small, whatever income is generated on those lands must be divided among all owners.

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Gover, for example, has an interest worth 7 cents in a parcel in Oklahoma, Hackler said.

Addressing the problem of fractionation, Babbitt said Congress must pass legislation to allow tribes to begin consolidating allotments on a voluntary basis. He said there is a $5 million pilot program under way at a Minnesota reservation to buy the interests of anyone who wants to sell. The BIA will convey the title to the tribe with a lien for repayment of the purchase price, he said.

Babbitt said the media have sensationalized estimates of what the government may owe Indians. He said he did not know if it's $10 million or $100 million.

"The dollar figures are manageable," he said. "Our obligation is to square the accounts. We take that seriously, and we will."

Gover said the BIA has struggled to run the program, but until now Congress hasn't provided the funding it needs to be effective.

Gover praised BIA employees, 93 percent of whom are Indian, for their hard work on the project. "Nobody wants the system fixed more than BIA," he said. "It's about Indian people fixing a problem created by neglect."

Critics have called the new system a sham because the records are in disarray and have accused Interior officials of inaugurating the system in Montana to avoid the scrutiny of the national media.

Gover said the BIA selected the Billings field office a year ago, before it knew there would be a trial or what media coverage might be.

Gover also said critics have a right to be skeptical. However, he said the BIA is committed to an aggressive roll-out schedule that calls for having the program operating nationwide by 2001. "We cannot stop. We cannot slow down, and we cannot turn back," he said.

Community Reinvestment Act

Question:
What are the benefits of CRA?

Answer:
CRA is helping to rebuild homes, grow small businesses, create jobs, and restore hope in neighborhoods across the country. By encouraging banks and thrifts to explore opportunities to make safe and sound loans in low income communities, CRA is helping to expand the reach of the private sector marketplace.

For example, between 1993 and 1997, home loans to low and moderate income communities grew by 45% compared to average growth of 33%. Banks and thrifts subject to CRA's reporting requirements made $159 billion in small business loans in 1997, with about 20% going to businesses in low and moderate income areas.

Banks and thrifts made $18.6 billion in community development loans in 1997. In the six year period 1993-1998, national banks invested eight times as much in community development as they did in the previous 30 years.

Question:
As an economist, how can you justify CRA?

Answer:
Federally insured banks and thrifts receive benefits from comprehensive federal regulation, access to the Federal Reserve Board's discount window and the payments system, and federal deposit insurance, and are required under their charters to meet the convenience and needs of their communities.

CRA helps to overcome market failures in the provision of credit in low and moderate income communities. For example, given imperfect competition in these markets, and the fact that information has the attributes of a public good, the costs of gathering information about profitable loans in low income communities may create barriers to entry that can be efficiently reduced through CRA's obligations.

I think what you will find is that banks have, because of CRA, entered into new markets and found profitable loans to make to creditworthy borrowers. As Alan Greenspan has said, CRA is helping by "enhancing the market."

Question:
Will the Administration veto Financial Modernization legislation over the Community Reinvestment Act?

Answer:
President Clinton and Secretary Rubin have made clear that the Administration would

veto legislation that weakened or failed to preserve the relevance of CRA.

With respect to the Senate-passed financial modernization legislation, the President has said that he would veto the bill, in part because in his judgment the bill would undermine the effectiveness of the Community Reinvestment Act.

By contrast, the Administration supports the House passed version of financial modernization, which preserves the relevance of CRA.

<u>Background:</u>
Congress enacted CRA in 1977 to encourage federally insured banks and thrifts to help meet the needs of their communities, consistent with safe and sound banking practices. Federal bank and thrift supervisors assess financial institution performance: loans made, services provided, and investments in their communities. CRA regulations tailor examinations to specific types of institutions. The regulation provides a streamlined examination for banks and thrifts with assets under $250 million, a community development test for wholesale and limited purpose institutions, and a strategic plan option for all institutions. Examinations are typically done on 24 to 36 month cycles.

Banks and thrifts make their CRA ratings public. The public has an opportunity to comment on CRA performance at any time, including in connection with scheduled examinations, and the filings of certain types of applications, such as those for mergers and acquisitions, the establishment of new institutions, and deposit facilities.

S. 900, the Senate financial modernization legislation, weakens CRA in three ways: 1) The bill provides a "safe harbor" for banks with a satisfactory or better CRA rating. Such an institution would be deemed to be in compliance with CRA unless "substantial verifiable information" arising since the time of its most recent examination is filed. 2) The bill provides a small bank exemption that exempts banks with less than $100 million in assets located outside metropolitan areas from CRA – 38 percent of total banks and thrifts. 3) The bill fails to include the House-banking bill requirement that insured depositories have and maintain a satisfactory record on CRA as a condition for engaging in newly authorized financial activities.

Gramm is likely maneuvering for a "CRA neutral" bill out of conference, dropping his anti-CRA provisions, but omitting our "have and maintain" requirement. Given the changing nature of the financial services industry, with an increased focus on newly authorized activities, and a decreased emphasis on bank mergers, we have taken the position that such a bill is not CRA neutral, but would in fact weaken CRA over time.

Extortion

<u>Gramm position:</u>
Gramm believes that CRA is used by community groups to extract payments from

banks for improper purposes by threatening to protest their applications. Specifically, Gramm contends that community groups have extorted $9 billion from banks under CRA.

Question:
Isn't the Community Reinvestment Act extortion?

Answer:
We believe extortion is wrong. Extortion is already illegal under federal and state laws, and extortion in any context should not be tolerated.

The vast majority of applications subject to review under CRA are approved without adverse public comment on CRA. Even applications that receive such comments are overwhelmingly approved. The regulators determine a bank's CRA record based on its performance, not based on agreements reached with community groups.

CRA encourages banks and thrifts to serve the needs of their entire communities, consistent with safe and sound banking practices, and I believe it is serving its purpose.

Additional proposals might chill legitimate, normal, arms-length transactions and productive cooperation between banks and community groups. For example, banks make grants to community-based organizations to conduct homeownership counseling, which increases the bank's ability to make sound loans to low-income borrowers.

Further Background
We would support something along the lines of the disclosure requirement included by Senators Gramm and Sarbanes in S. 900. Under the provision, banks and community groups would have to report to the banking regulators on agreements they reach under CRA. Community groups are divided over the provision.

Gramm claims that under CRA, community groups have extorted from banks over $9 billion "in cash" for community groups. The reality is that the $9.5 billion he refers to is the amount that the National Community Reinvestment Coalition estimates that banks have pledged under CRA in 1997-98, going forward over the next ten years, for a range of community development efforts – only a tiny fraction of which represents operating grants to community groups.

Of the $9.5 billion, $6 billion derives from the $115 billion Citigroup pledge, issued by press release upon its merger announcement, not under any agreement with a community group. The $6 billion includes loans, grants, equity investments and technical assistance for a wide range of community development purposes over the next 10 years – not just grants to community groups. It includes investments in low income housing tax credits, equity investments in community development activities, investments in affordable housing securities, community development grants for neighborhood revitalization projects, expansion of a training institute for community development managers and lenders, project and working capital loans to nonprofit community organizations and developers of affordable housing, loans to intermediary organizations that provide financial and technical services to community based organizations, and other activities.

Of the $9.5 billion, $2 billion derives from the $350 billion Bank of America pledge, issued by press release upon its merger announcement. Bank of America similarly pledged to undertake a wide variety of community development activities, including investments in community development intermediaries, such as the Local Initiatives Support Corporation, the Enterprise Foundation, Rural Community Assistance Corporation, the Neighborworks Network, and CDFIs.

Grants to non-profits include those for home counseling programs, which are proven risk management techniques that increase a bank's ability to make affordable housing loans to a broader range of individuals consistent with safe and sound business practices.

Only a very small fraction ($170,000) of the $9.5 billion in the NCRC sample of 1997 and 1998 agreements, cited by Gramm, constituted operating grants to community groups signing CRA agreements.

(see further background under banks and community groups)

Sunshine Amendment

Question:
Do you support the CRA Sunshine Amendment in S.900, which requires community groups and banks to disclose and report on their CRA agreements?

Answer:
We support disclosure. We support sunshine. We'd like to work with the Congress on the precise language.

Small bank exemption
Gramm position: S. 900 exempts banks with $100 million or less in assets outside metropolitan areas from CRA. Gramm believes that small banks should be exempt because their whole mission is serving their local communities, and the burdens of CRA are thus unjustifiable.

Question:
Shouldn't we relieve the regulatory burden on small banks?

Answer:
Most community banks do a good job of serving their communities. However, small

bank CRA ratings are not better than the ratings of large banks. In fact, a 1998 Congressional Research Service study found that banks with less than $100 million in assets received 70% of the "needs to improve" and "substantial noncompliance" ratings.

The revised CRA regulation issued in 1995 already relieved small banks of much of the regulatory burden of CRA. Small banks with assets less than $250 million, are subject to a streamlined examination that focuses on lending.

The Administration is opposed to the small bank exemption in S. 900. Small banks, with assets less than $100 million, located outside metropolitan areas, comprise 38 percent of all banks. Exempting small banks from CRA would have devastating effects on local communities, particularly rural communities throughout the country.

Background
Paperwork Reduction Act estimates released by the banking regulators in June find that small banks spend only an estimated 10 hours per year on CRA record keeping requirements.

Safe Harbor

Gramm position:
Gramm favors a "safe harbor" for banks that receive a satisfactory or better rating in their last examination. Under his bill, there would be a presumption that such banks are complying with CRA unless substantial evidence to the contrary arising since their last examination were presented. He argues that this will prevent frivolous complaints from delaying applications.

Question:
Why shouldn't a financial institution be able to rely on its most recent "satisfactory" CRA rating during application reviews?

Answer:
The Administration opposes any "safe harbor" for banks receiving a satisfactory rating their last examination.

A bank's CRA rating can become stale. For example, circumstances can change quickly after an examination, examiners may miss evidence with respect to a particular market, or applications may involve new markets not covered under the earlier examination. The "safe harbor" would prevent regulators from even considering such matters unless a public comment is filed meeting the evidentiary burden.

In addition, the safe harbor puts a significant burden on the public to identify "substantial verifiable information" despite the fact that financial institutions and their regulators are better able to produce relevant information necessary to determine the veracity of the comment.

Regulators already have discretion to ignore frivolous comments, and they exercise that discretion.

Have and Maintain - Newly Authorized Activities

Question:
The Administration supports expanding CRA to non-bank financial institutions. Doesn't that deviate from the original focus on institutions that take federally insured deposits?

Answer:
The Administration has not supported extending CRA to non-bank financial institutions. We have insisted that financial modernization legislation contain a provision that insured depository institutions have and maintain a satisfactory record on CRA in order to engage in newly authorized financial activities.

If we wish to preserve the relevance of CRA at a time when the relative importance of bank mergers may decline and the establishment of non-bank financial activities will become increasingly important, the authority to engage in newly authorized activities must be connected to a satisfactory CRA performance. Achieving and maintaining an adequate CRA record furthers the long standing public purpose of banks: to serve the convenience and needs of their communities.

Credit Allocation

Gramm position:

> Gramm believes that CRA is credit allocation and is fond of asking others their view on the matter. He argues that any government attempt to influence the flow of capital is credit allocation.

Question:
You are an economist. Isn't CRA credit allocation?

Answer:

> Credit allocation can mean different things, but I think Chairman Greenspan had it about right. He said, "The essential purpose of the CRA is to try to encourage institutions who are not involved in areas where their own self interest is involved, in doing so. If you are indicating to an institution that there is a foregone business opportunity in an area X or loan product Y, that is not credit allocation. That, indeed, is enhancing the market."

"Politicization" of OCC Examination Staff

Question:
Gramm charge: The OCC examination staff were asked to find bankers to speak out in favor of CRA. How can you ask us to support the operating subsidiary when the OCC is engaged in these political activities?

Answer
I am familiar with the incident. My understanding is that the OCC promptly corrected the problem. Any effort to politicize the examination staff would be wrong.

The Department is not involved in any case specific matters before the OCC and is committed to an impartial OCC. We are committed to maintaining the dual banking system in the United States, with appropriate roles for both federal and state-chartered banks, because it has served our country well. We also believe that the Executive Branch needs to maintain its input into questions of banking regulatory policy, as was the case, for example, with the measures needed to ease the credit crunch in 1993.

Paperwork Burden Reduction Act Estimates

Question:
The banking regulators found that the burden under the revised CRA regulations increased by up to 8 times what the burden had been in 1993. How can you say that you reduced the burden on banks under CRA?

Answer:
The banking regulators recently revised their estimates of the time it would take banks and thrifts to comply with CRA record keeping and reporting requirements. The regulators did not determine that the actual burden had increased. The regulators determined that their estimate of the actual burden had been inaccurate. In large measure, the inaccuracy arose because the regulators had believed that easy to use software would be quickly developed to permit automatic "geo-coding" of small business loans – that is, recording where small business loans were being made. This software took longer to develop and to disseminate than anticipated.

The burden on small banks is modest. The regulators estimate that it would take a small bank about 10 hours of one employee's time each year to comply with CRA.

For large banks, with assets over $250 million, the burden estimates are 15 weeks per year. These large banks have an average asset size of $3.2 billion and 859 employees.

These burdens do not seem disproportionate to the benefits of CRA in terms of increased lending for housing, jobs and small business growth in communities.

CRA and the Internet

Question:

You're for a tax-free zone on the Internet, do you agree with OTS Director Seidman that we should tax internet banks with CRA?

<u>Answer:</u>
We strongly support CRA and want to be sure to preserve its relevance in the 21st century. I am not very familiar with the precise issue you raise. My understanding is that Director Seidman posed an interesting, but technical question about the appropriate assessment area for such institutions.

Fair Lending

Question:
Do you consider so-called "predatory lending" practices a problem? If so, what steps would you recommend to address them?

Answer:
While important strides have been made in extending access to credit to low income communities for home ownership and business expansion, significant problems remain. In some instances, lenders may engage in practices that are unfair or deceptive.

In July 1998, the Federal Reserve Board and the Department of Housing and Urban Development issued a joint report which identified abusive lending problems and suggested proposals to address them. The report noted a number of abusive practices.

For example, lenders may fail to disclose fully the costs of a loan, loans may include high up-front costs and short-term balloon payments that result in "loan flipping," the frequent need to refinance loans and the rapid reduction of a borrower's equity in his home.

The Administration believes that Congress should enact the report's recommendations. In addition, the Administration has made additional recommendations to address problems identified in the report, and has asked the Federal Reserve Board to improve reporting under Home Mortgage Disclosure Act and the Equal Credit Opportunity Act.

Background:
The July 1998 HUD/Fed Report documented continued abuses in the subprime lending market. The report made a number of recommendations with respect to changes in the Truth in Lending Act (TILA), the Real Estate Settlement Practices Act (RESPA), and the Home Ownership Equity Protection Act (HOEPA). The President recently endorsed the report's recommendations, and we also proposed additional steps, primarily related to further changes in HOEPA.

Currently, under HMDA, financial institutions must report the race and income of home mortgage applicants, but under the Federal Reserve Board regulations implementing the Equal Credit Opportunity Act, banks are forbidden from collecting such data. Treasury has asked the Federal Reserve to permit banks to collect data on small business borrowers' race, gender, and income, information that OCC and OTS require. . With respect to Regulation C, implementing the Home Mortgage Disclosure Act, Treasury has asked the Federal Reserve to require financial institutions to report on reasons for denying a loan. Treasury expects a favorable vote for the Federal Reserve Board in early July, 1999.

New Markets Initiative

Question:
What is the New Markets Initiative?

Answer:
The objectives of the New Markets Initiative are: to spur $15 billion of new private capital investment in businesses located in economically distressed communities, to build a network of private sector institutions focused on economic development in distressed areas, and to provide the technical assistance to these businesses that they need to grow.

The New Markets Tax Credit would help spur $6 billion in private sector investment for business growth in low and moderate income rural and urban communities. Investors would be able to claim a credit worth, in present value terms, 25 percent of the amount invested. Investments in a range of community development investment vehicles focused on serving these communities, such as CDFIs, would be eligible for the credit. These funds, in turn, would invest in businesses in low-income communities.

Background:
In effort to stimulate greater sector participation in economically distressed areas, President Clinton proposed the New Markets Initiative in January 1999. Components of the initiative include: a New Markets Tax Credit; private sector run investment funds – New Markets Venture Capital Firms (for smaller businesses); America's Private Investment Corporations (for larger businesses); Small Business Investment Companies (SBICs) targeted to low and moderate income areas; an expanded Community Development Financial Institutions (CDFI) Fund; increased support for micro-enterprises, including through the Prime Act; and BusinessLINC. (See background)

Question:
What is the estimated value of the new markets tax credit in terms of luring new private sector funds to economically distressed areas, i.e., what level of economic activity do you believe will be generated over and above what would have been generated without the New Markets Tax Credit?

Answer:
The New Markets Tax Credit will provide a tax credit on up to $6 billion in new equity investments in qualified community development entities. Existing investments in these entities would not qualify. Given the relatively low levels of equity capital currently available to community development entities, we anticipate that the New Markets Tax Credit will generate significant new equity investments in these entities.

Question:
How will this credit work -- what are the eligible entities and activities?

Answer:

Taxpayers would be allowed a credit against Federal income taxes for qualified investments made to acquire equity interests in a selected community development entity. The credits would be allocated to selected community development entities by the Department of the Treasury, which would authorize selected community development entities to issue an aggregate of $6 billion in new equity investment over 5 years. The credit allowed to the investor would be a six-percent credit for each year during the five-year period after the equity interest is acquired. Substantially all of the proceeds of the investment must be used by the community development entity to make equity investments in, or loans to, businesses located in low-income communities.

Question:
Is there other relevant experience that the Department can point to in terms of the success of tax credit financing in promoting community development activities?

Answer:
In developing the New Markets Tax Credit, the Department took account of experience with the low income housing tax credit and the community development corporation tax credit pilot, as well as Empowerment Zone incentives, and state tax credit programs.

Question:
Do you believe non-profit community development corporations, loan funds, and Community Development Financial Institutions (CDFIs), have the track record and capacity to make good use of the New Market Tax Credit?

Answer:
Yes. The kinds of organizations that could be eligible for the tax credit are specialized, locally based institutions. Many such organizations have a strong track record in serving their communities, and have the capacity to use the New Markets Tax Credit effectively. In addition, we are hopeful that new entities will continue to form that can make effective use of the tax credit. To that end, in addition to the tax credit, we are proposing to bolster funding for a set of initiatives that help to build local capacity, including increased funding for the Treasury Department's CDFI Fund.

Question:
What types of investors would use such a credit -- is this targeted to institutional as well as individual investors?

Answer:
Both corporations and individuals may take advantage of the tax credit, and we anticipate that community development entities will seek equity investments from a wide range of investors, including individuals, banks, investment banks, insurance companies, and others.

Question:

How will the Treasury Department ensure that the credit benefits poor communities -- what are the targeting requirements for credit?

Answer:
Substantially all equity raised using the New Markets Tax Credit must be used to invest in, or make loans to, businesses located in low and moderate income communities. We have devised a set of rules to ensure that qualified businesses are actually doing business in a low or moderate income community. Low and moderate income communities are defined as census tracts with poverty rates of 20 percent or higher, or with median family income at or below 80 percent of metropolitan income, or if in a nonmetropolitan area, at or below 80 percent of statewide income.

New Markets Initiative:

President Clinton proposed the New Markets Initiative in January 1999. Components of the initiative include: a New Markets Tax Credit; private sector run investment funds – New Markets Venture Capital Firms (for smaller businesses), America's Private Investment Corporations (for larger businesses); Small Business Investment Companies (SBICs) targeted to low and moderate income areas; an expanded Community Development Financial Institutions (CDFI) Fund; increased support for micro-enterprise, including through the Prime Act; and BusinessLINC.

New Markets Tax Credit
The New Markets Tax Credit will attract $6 billion in new equity capital to businesses located in low and moderate income communities. The credit is designed to build the capacity of institutions with business development expertise and knowledge of their local communities, and promote partnerships between skilled community development entities and mainstream sources of capital. Community development entities will apply for designation. Once designated, these entities will use the tax credit to attract investors. The community development entities will transfer a given amount of tax credit allocation to investors. Investors then claim a 6 percent tax credit on their investment for 5 years.

America's Private Investment Companies (APICs)
Modeled after the Oversees Private Investment Corporation's investment funds, APICs – privately run investment companies – will focus on providing long-term equity and debt financing for large-scale projects located in economically distressed areas. APICs will raise $25 million in equity from private investors and leverage the equity with up to double the amount of capital in HUD-guaranteed debt. APICs are designed to support large scale revitalization projects, including commercial real-estate projects.

New Markets Venture Capital Firms
New Markets Venture Capital Firms will be SBA-licensed, community based venture capital funds that are formed to invest in companies located in low and moderate income areas. Investments will range from $50,000 to $300,000. The venture funds will raise $5 million in equity, leveraged with up to double that amount in SBA-guaranteed debt. The

funds will also receive SBA grants for technical assistance.

Small Business Investment Companies --Low and Moderate Income Areas
An SBIC is a private company formed to invest in small businesses. The newly targeted SBICs, utilizing private sector equity, leveraged with debt guaranteed by the SBA, will make investments in small businesses located in low and moderate income communities. These targeted SBICs will be regularly licensed SBICs, with at least $5 million in capital.

Micro-Enterprise Lending and Technical Assistance
Under the President's FY 2000 budget, funding for micro-enterprise across the federal government would be increased by 159 percent, from $32 million to $83 million, including $15 million for the Program for Investments in Micro-Entrepreneurs (PRIME), and a doubling of technical assistance and lending in the SBA Micro-Loan Program. PRIME authorizes the CDFI Fund to provide technical assistance and training to micro-enterprise development organizations and micro-entrepreneurs.

The House banking committee voted out (on voice vote) the CDFI Fund reauthorization and the PRIME Act on May 26.

BusinessLINC
BusinessLINC is designed to encourage large businesses to work with small businesses located in economically distressed areas to improve their competitiveness. BusinessLINCs help small firms obtain technical advice, financing, market place credibility, subcontracts and joint ventures, and enhance management development.

Community Development Financial Institutions Fund (CDFI Fund)
The CDFI Fund promotes access to capital and local economic growth by directly investing in and supporting community development financial institutions (CDFIs) and expanding financial service organizations' lending, investment and services within underserved markets. CDFIs include community development banks, community development credit unions, non-profit loan funds, micro-enterprise loan funds and community development venture capital funds. The Fund builds the financial capacity of CDFIs by providing equity investments, grants, loans or deposits. The Fund also provides technical assistance to build the skills and capacity of less experienced CDFIs.

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QS FOR Q& AS BY SITE LOCATION

EAST ST. LOUIS – HUD

Q. Why was the Walgreen's that you are visiting picketed when it opened?

Q. What is the connection between the developer of the shopping center and the Casino Queen riverboat casino?

Q. ICI Venture is announcing a major new investment fund today. Isn't its founder a big supporter of George W. Bush?

KENTUCKY – Treasury and USDA

Q. How has the Kentucky Highlands Investment Corporation helped to improve economic conditions in the Appalachia Region?

Q. What is the role of KHIC in the Empowerment Zone?

MISSISSIPPI DELTA – USDA (I have information I can fax that may help with this)

Q. Why did the proposal to create a Delta Regional Commission last year fail?

PHOENIX – HUD

Q. Why is Phoenix a New Market. Isn't it a prosperous thriving city?

Q. Why is one of your stops on this tour focused on the Hispanic community but none of your other stops have focused on a specific minority community?

PINE RIDGE RESERVATION – HUD

Q. Isn't the New Markets Initiative focused on broad economic development and investment in business? Why are most of your announcements here relalted to housing investment?

Q. Conditions on reservations seem so dire with unemployment so high. How will people how live here be able to afford the mortgages that these programs create?

LOS ANGELES – HUD

Q. Hasn't the Los Angeles Empowerment Zone had difficulties in the past. What is the current status?

Q. What is the status of the LA Community Development Bank and the problems it has experienced?

Q. President Clinton visited Watts as long ago as 1992 during his campaign. What has changed since then. Have things gotten any better for this community during the Clinton Administration?

Lynn G. Cutler
07/03/99 05:01:48 PM

Record Type: Record

To: Dawn L. Smalls/WHO/EOP@EOP

cc:
Subject: q's and A's

--------------------- Forwarded by Lynn G. Cutler/WHO/EOP on 07/03/99 05:00 PM ---------------------------

Lynn G. Cutler
07/02/99 07:10:37 PM

Record Type: Record

To: Dag Vega/WHO/EOP@EOP, Erica S. Lepping/WHO/EOP@EOP

cc:
Subject: q's and A's

I:The New Markets Initiative will help Pine Ridge in several ways:

o Housing construction and development of new lending opportunities--a public, private partnership between HUD and several private participants, including Fannie Mae and the Mortgage Insurance Companies of America.

o Investment by the private sector in training for young Indians in telecommunications and construction industries. Gateway , Owens-Corning, and the North American Steel Framing Alliance will be the investors working with all 33 of the nation's Indian Tribal Colleges.

o A major investment in the Badlands National Park that will create whole new tourism opportunities. The U.S. Park Service will construct a new Visitor's Center and Indian Cultural Center at White River. There is a potential of one million visitors a year to the facility, which will be operated by the tribe. They will also get the revenue.

Many of the housing, lending and other initiatives are designed to help the rest of Indian country. The grants from the Energy and Agriculture Departments will go to several other tribes, and the HUD housing grants will go to 28 tribes. Most of all, the fact that the President came to the reservation will help people around America to know more about the difficult circumstances most people in Indian country experience.

2. We are beginning with the understanding that there are structural problems at Pine Ridge, and that we need to invest in water, energy, and telecommunications efforts as well as housing, before we can expect private investment in such a remote and isolated place.
The approach is to build infrastructure, as much as possible with private partnerships. Because the nature of the challenges are so profound, almost like some third world countries, we need to take an approach that includes micro-investments and looks to telecommunications and long distance learning capabilities.

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Record Type: Record

To: Dawn L. Smalls/WHO/EOP

cc: Lisa Green/OPD/EOP, Michele.Kriess@sba.gov, Betsy.Kim@sba.gov, saunders.miller@sba.gov
Subject: New Markets - Q&A

Q. What is an SBIC?
A. An SBIC is a privately managed investment firm that provides equity capital, long-term loans and debt-equity investments, plus strategic assistance to qualifying small businesses. They make these venture capital investments with their own funds plus funds obtained by borrowing at favorable rates with an SBA guaranty.
Q. It was recently uncovered that government-backed SBICs were making political contributions. Is it appropriate for the President to use this program as a model for his new initiative?
A. Mostly several years ago, fewer than six contributions were made to representatives of both parties. They were legal. However, the SBA concluded that they were undesirable from a policy standpoint. Therefore, the SBA has issued proposed regulations for public comment that would prohibit any such political contributions by SBICs in the future.
Q. How is CRA connected to the New Markets initiative?
A. Under the CRA investment test, investments in SBICs qualify for CRA credit, and the formation of LMI SBICs which would receive CRA credit is a goal of the administration.
Q. How has Kentucky Highland Investment Corporation helped to improve economic conditions in the Appalachia region?
A. For over 30 years, Kentucky Highlands which utilizes private capital and funds available through various government programs makes investments in companies that create long-term permanent high quality jobs. They have subsidiaries which are CDFIs and SBICs. Since its creation, KHIC has invested more than $50 million in over 140 enterprises that currently employ more than 6000 people.
Q. Why is Phoenix ~~a~~ New Market?
A. Even though Arizona overall is experiencing a robust economy with low inflation and low unemployment levels, there continue to be significant parts of the Arizona community that have not had the opportunity to share in or realize the benefits of our expanding and robust economy.
Q. Why is none of your stops on this tour focused on the Hispanic community but none of your other stops have focused on a specific minority community?
Of course, on the Pine Ridge reservation, we are focusing on Native Americans. But regarding Phoenix, it happens to be that the failure to participate in the robust economy