Outstanding Issues

May 18, 2000

New Markets

1. Renewal Communities

Points of Agreement:

- Create 40 Renewal Communities
- Tax incentives run from 2002 through 2009
- Include additional $35,000 of sec. 179 expensing
- Include commercial revitalization deduction

Outstanding Issues:

- Do we want to provide more capital gains exclusions?
  We offered 60% exclusion for individuals holding small business stock, plus a zero-rate capital gains rollover for gains from RC business property that is rolled over to another RC business property investment. They insist on getting zero cap gains.

- Would we grant RCs the EZ wage credit?
  We offered WOTC credit, which is less generous. In this offer, they asked for EZ wage credit for the first time. They suggest adding cap gains rollover exclusions to EZs to sweeten our side of deal.

- Are we willing to require localities to relax zoning and licensing restrictions?
  We would rather not interfere with local decisionmaking. They feel localities should relax these requirements to encourage business investment and get tax incentives.

- For Family Development Accounts (FDAs), do we insist on funding the match through a tax credit to banks, or would a deduction be acceptable?
  We think a deduction is unlikely to be sufficient to encourage banks to provide matching funds. They want a tax incentive that is not a credit. Do we want to change this? Should FDAs be available in EZs, too? Should we try to eliminate FDAs altogether?

2. Empowerment Zones and DC Incentives

Points of Agreement:

- Create 9 Round III Ezs, for a total of 40 EZs
- Tax incentives run from 2002 through 2009
- Include EZ Wage credit in all zones
- Include EZ tax-exempt financing in all zones
- Extend DC incentives through 2009 (but not first-time homebuyer credit)

Outstanding Issues:

- They want to make $200MM EZ appropriations conditional on our accepting other unspecified requests in a final VA-HUD appropriation.

- Do we agree to phase-in tax incentives?
  They argue phase-in is necessary to limit revenue cost.

- Do we want to provide any capital gains exclusions in EZs?
  We offered the same cap gains provisions in both RCs and EZs: 60% exclusion for individuals holding small business stock, plus a zero-rate capital gains rollover for gains from EZ business property that is rolled over to EZ business property.

- Do we insist on extension of DC first-time homebuyer credit?
  We think the credit has effectively influenced buyer behavior, and the homebuyer credit was the Democratic component of the DC package. They say W&M objects to extending homebuyer credit.

3. New Markets Tax Credit

Points of Agreement
- Accept NMTC conceptually (not as a credit), with objective criteria for allocation to community development entities.

Outstanding Issues
- New Markets Tax Credit: Will we accept a deduction rather than credit?
  They say Archer is adamant. They suggest letting W&M and Treasury staff work out incentives = $1B, but not call it a credit. They say Archer can't be seen backing down from statements made to Summers.

4. Low Income Housing Tax Credit

Outstanding Issues
- They propose putting LIHTC in the minimum wage bill.
  This is unacceptable. We should insist that LIHTC is included in this package.

5. APIC and New Markets Venture Capital Firms

Points of Agreement
- Accept APICs as marked-up
- Accept NMVC as negotiated by Talent-Watts, but without our 3 programmatic fixes.
  They contend that Velasquez does not agree with these 3 NMVC programmatic fixes. They suggest going to mark-up, with a prior meeting b/w Alvarez and Talent.

Outstanding Issues
- NMVC: Do we insist that NMVC investments staff be permitted to provide "operating assistance"?
  Allowing NMVC staff to provide operating assistance is a core principle of community development venture capital. Forbidding the same staff who make investment decisions from also providing operating assistance obstructs a central feature of the NMVC business model.

- NMVC: Should the SBA be able to license an NMVC without the NMVC having up-front binding commitments for 100% of its matching grant funds?
  We think that requiring binding commitments is such a high hurdle that few NMVCs would be created. In practice, most of the grant match will be raised through time. Therefore, we suggest allowing NMVCs to be licensed without up-front matching commitments, but that an NMVC can receive its grant money only to the extent it has raised its match.

- NMVC: Should NMVCs investment authority be expanded to "equity-type" investments?

We think "equity-type" investing permits the range of instruments more typical of community development venture capital, rather than restricting investments to "equity" only. If necessary, this could be handled in legislative history.

6. Disposal of HUD-owned Unoccupied Property

Outstanding Issues

- Would we accept required disposal of HUD-owned unoccupied buildings, per HR1776?
  We assert that HUD already has the authority to dispose of unoccupied properties as HR1776 contemplates. Cuomo and Kasich jointly announced such a "Dollar Home" program last week. We can accept this if absolutely necessary, though we feel it creates a rigid process where there was none before.

7. Charitable Choice Provisions for SAMHSA Drug Treatment

Outstanding Issues

- Would we accept use of the term "vouchers?"
  Vouchers are explicitly authorized under Welfare Reform. The underlying SAMHSA statute is silent on vouchers, and some state programs in fact already use a voucher-type system. The Senate-passed Frist substance abuse bill does not authorize vouchers. They have offered to remove "vouchers" if we concede on next point.

- Would we accept language that "Aid under this program is aid to the individual, not to the organization?"
  They believe that this provision is necessary to protect the statute from Constitutional challenge. They may also see this as part of a longer-term strategy to change the terms of the political discussion. Neither the Welfare Reform law (WR) nor the Senate-passed Frist substance abuse bill has this language. They had previously agreed to silence on this issue. OLC advises that courts would not accept this characterization without conducting their own examination of the facts and circumstances. Thus, *as a legal matter, this provision may not have practical effect*. However, the provision states a political position that would be pushed in other statutes, and would certainly raise Democratic objections.

- Would we accept preemption of state licensing requirements for drug treatment?
  They want to specify that, in applying educational requirements for program personnel in SAMSHA-funded facilities, (1) substance abuse training provided by ROs shall given the same credit as secular training in drug treatment, and (2) if the state's educational requirements include qualifications not specific to substance abuse treatment, then religious education and training shall be given credit equivalent to secular education and training, and (3) that, under certain circumstances, the HHS Secretary can pre-empt any remaining educational requirements imposed on ROs. Neither WR nor the Senate-passed Frist substance abuse bill has this language. We have two major concerns: First, we want to avoid preempting state law in licensing, an area where states have traditionally had responsibility, with no federal role. Second, preempting state licensing requirements only for religious organizations is particularly vulnerable to a legal challenge.

- Would we accept a limited audit for religious organizations, if such organizations segregate their federal funds?
  This provision is in Welfare Reform. We do not like the idea of separate audit methods for different types of organizations.

THE WHITE HOUSE

WASHINGTON

April 4, 2000

MEMORANDUM

TO: **GENE SPERLING**
BRUCE REED
TOM FREEDMAN

FROM: **SIDNEY BLUMENTHAL** SB

RE: **Ideas for New Markets**

These letters have been sent to me by Drexel Sprecher, active in the DLC, who suggests that we look into involvement of the National Community Development Organization and the Assemblies in the New Markets project. I hope this can be looked into to see if it is a good idea.

March 27, 2000

Sidney Blumenthal
Assistant to the President
The White House
Washington, DC 20500

Dear Sid,

The president's April 9 visit to the Mississippi Delta provides a marvelous opportunity to apply your Madisonian perspective on the Third Way to one of his most crucial legacy initiatives.

The recent broadcast of your Princeton speech on presidents and democracy confirmed to me that we have a broad range of shared perspectives and concerns. Your discussion of the Madisonian synthesis, especially your analogy to Third Way politics, is of great contemporary importance. Your analysis may inspire Democrats to reclaim Madisonian pluralism and governance from the Federalist Society and other legal absolutists. I view this as an essential step on the path to an authentic postliberal politics. And your emphasis on using politics to advance democracy may assist our party in achieving a better reconciliation of high ideals and principles with practical political strategy and tactics.

As you may know, I have been advocating conservative means to liberal ends for two decades, and have argued that the distinction between human nature and human potential provides a strong moral basis for integrating these apparent opposites. Indeed these ideas have been at the heart of many discussions with our mutual friends Ralph Whitehead and Morley Winograd over many years. I am confident that an integration of this sort will ultimately enable Democrats to claim a new and higher moral ground and end divided government with a clear mandate for governance.

Their more immediate relevance is in community capacity development to ensure the success of New Markets. With this in mind, I am forwarding to you a letter I wrote to the president a month ago (which was hand delivered to him by Craig Smith). The letter suggests combining the New Markets initiative, especially its microcredit and digital divide components, with a Jeffersonian approach to self-governance (of which Madison would surely have approved). A way to do this effectively, at almost no cost, is to involve Don Anderson of the National Community Development Organization and the Assemblies that he has organized throughout the Black Belt of the South as a way to enable impoverished communities to take charge of their destiny.

The Assemblies offer the promise of markedly increasing the capacity of communities to benefit from the microlending and computer literacy components of New Markets. Inviting Don and his colleagues to lend their expertise and his extensive organization and capacity to the initiative, and specifically the president's visit to the Delta where the Assemblies have a presence, could be decisive in the credibility and results of this essential initiative.

As you may know, Morley Winograd and I have had numerous discussions about the importance of decentralized and integrated governance, and he shares my sense that this sort of self-governance will make many programs more effective. He encouraged me to bring it to your attention in order to enlist your support in ensuring that it is included in the tour. I also know that Susan Andersen, who talked with you at the Conason book party in New York, mentioned the input she has given Melanne Verveer on closing the digital divide, and she is also enthusiastic about the prospect of marrying New Markets to self-governance.

Encouraging the president to include this approach to self-governance in New Markets is a perfect way to carry out your commitment to using politics to advance democracy.

I have discussed this with Don and he agrees this would be an exemplary and entirely feasible application of the methodology he has developed.

Susan and I would be more than happy to do anything we can to assist you with this.

I will plan to call you shortly to hear your thoughts and to learn how you think we might best proceed.

Kindest regards,

(s)

Drexel Sprecher

February 17, 2000

The Honorable William Jefferson Clinton
President of the United States
The White House
Washington, DC 20500

DETERMINED TO BE AN
ADMINISTRATIVE MARKING

PERSONAL AND ~~CONFIDENTIAL~~ INITIALS: Tlos DATE: 7/1/05

Dearest Bill,

As you begin the final year of your presidency, it is heartening to see you with so much commitment and so many plans to make a difference until the proverbial last hour of the last day of your term. Your tone has been magnificent on many recent occasions. Your lighthearted yet devastating response yesterday to the question about the incessant personal attacks on you by Three Quarter George and Senator McCain, pointing out the lack of substantive issues for them to run on, was an impressive blend of tactics and transcendence.

Every day I am reminded of the limited time remaining on your watch. This often deeply saddens me. Even if our efforts to elect the Second Minister as your successor are successful, there are so many ways in which neither he nor anyone else on the American political stage can replace you.

It is wonderful to hear that you will continue to promote your New Markets initiative with an April visit to Mississippi and other places Robert Kennedy visited in his own crusade to empower the poor. As you know, your friend Hiram Eastland I have often discussed the parallels between you and Bobby, and we have both written you about him on several occasions. New Markets is an opportunity to experiment in the uncharted territory envisioned by Bobby and only partially explored with his pioneering work in Bedford-Stuyvesant.

The possibility that you may incorporate microcredit initiatives into New Markets is very exciting. I remember when you were still Governor when you shared your enthusiasm for the microcredit initiatives of Mohammed Yunus (who once attended a seminar on beyond left and right thinking that I presented at Center for Strategic and International Studies). Equally exciting is your commitment to closing the digital divide in the conetxt of New Markets.

Your addition of these components to New Markets could be tremendously strengthened by enhanced civic and democratic participation. Your 1992 campaign evoked the idea of free enterprise for the many rather than the few. You have often said that America must bring free enterprise and democratic participation to the developing world. I suggest that combining free enterprise and democratic participation under the auspices of New Markets would greatly leverage the resources invested in antipoverty efforts here in America.

One of the major factors determining the degree of success of microcredit is mutual support among members of the community. Best practices for microcredit programs generally involve organizing the community into support groups and raising the civic consciousness of these groups. Organizing instills the capacity for community planning, decision making, and action. A more specific result is to provide group support for loan recipients as a substitute for hard collateral. This organizing process would normally require a substantial investment in training and staff.

There is an exciting alternative which is already available and well matched to New Markets.

Don Anderson of the National Community Development Organization has demonstrated success in empowering some of the poorest communities in America to lift themselves out of poverty and begin to determine their futures. Don may have done more than any person (and perhaps more than any single antipoverty initiative)to bring impoverished citizens and communities into greater participation in American life. He is a black Jeffersonian educated at the London School of Economics and the University of Michigan Law School. He abandoned a leadership role in the Congressional committee working on antipoverty legislation in the 1960s to devote his life to pursuing an alternative vision for which no evidence existed.

Over the last three decades, he has organized hundreds of thousands of citizens through the Black Belt of the South into paragovernmental organizations modeled after the ward republics Jefferson described two centuries ago. These community political institutions make decisions about local concerns and serve as intermediaries between citizens and formal government at the county, state, and federal levels. They solicit grants and raise money for commonly determined purposes.

Assemblies provide a method to create horizontal relationships in which the existing, complementary skills of the members are considered community assets. Members of a community provide services through mutual nonmonetary exchange of knowledge and care. This exchange progressively replaces the need for many government services. When done well, this provides great leverage and cost-effectiveness.

Although the Assemblies are not voter registration organizations, Assembly members have registered enough voters to have provided the margin victory for a number of elected officials, among them former Virginia Governor Douglas Wilder, Senator Robb, and Representative Eva Clayton. They have been the primary cause of ending white minority rule in several majority black counties in the South.

Don Anderson says access to capital is one of the major factors limiting what these communities can do once organized. This suggests that combining them with New Markets is a natural step.

The Assembly model is replicable and cost-effective. Assemblies are currently active in sixty-four countries in Virginia, North and South Carolina, Georgia and Mississippi, and in three cities, the largest of which is Cleveland, Ohio. Organizing Assemblies in new areas is inexpensive and takes only about a year. Don is confident that the Assembly model could be adapted for Pine Ridge and other Indian reservations.

Assemblies provide an existing and ready community support structure of the type that enables lending for small enterprise to work. They can replace the need for much of the staff and training that microcredit would require.

Your New Markets Initiative would become even more powerful when combined with this approach to community decision making.

Don is a close friend of Ambassador Wyche Fowler, who supported Don's early work in the South, was a trustee until you appointed him. Wyche can vouch for the power of the Assembly model. When Wyche was a Senator, you briefly visited with him and Don at a Democratic meeting hosted by Smith Bagley at the Homestead in Hot Springs, Virginia. I would like to reintroduce you to Don and encourage you to make use of his exemplary life and innovative work. You may reach him at (202) 554-3265.

The structure offered by the Assemblies would also support your efforts to bridge the digital divide. Mutual support within a community will be a major factor determining the degree of successful assimilation of technology into people's lives, work, and learning.

You may not know that last fall I was nominated to be a fellow at the United States Internet Council. That may make me the first Democrat in a policy role with the Council. My colleague Michael Vlahos and I plan to think about long term issues involving the relationship between cyberspace and civilization. Michael and some others at the Council would be very interested in expanding access to the Infosphere.

The week before last I participated in organizing a meeting between President Iglesias of the Inter-American Development Bank and some thought leaders and executives in Silicon Valley. The topic was ways to use technology to improve economic and social development in Latin America. We discussed the importance of subjective factors in the beneficial assimilation of technology. Susan Duggan and Don Presson of the World Internet Center made a strong case for the importance of human capital. I suggested to President Iglesias that he search for ways to address the false choice between establishing equal objective legal rights and providing programs that recognize the wide variance in subjective capacity among different individuals and communities whose circle of concern ranges from the clan to the entire world. He responded very favorably to this idea and I expect that it will be discussed at the Bank's conference on technology and development in New Orleans in March.

You may remember me introducing you to New York University professor Susan Andersen at the DLC's National Conversation in Baltimore last July. You may also remember that Susan later sent you the Mandela biography (which we noticed you carrying off Air Force One a few days later). In October, Susan wrote Melanne Verveer about combining service learning and AmeriCorps with high tech tutoring to reduce the digital divide. She also wrote Melanne the first week in January about marrying efforts to bridge the digital divide to New Markets. Melanne forwarded these letters to Jerry Edmunds for consideration for the State of the Union. Susan agrees that the importance of this is that the technology must be complemented by attention to the individual and community capacity to use it.

As you know, I believe that the success of the Third Way and your synthesis of opportunity and responsibility has been due in large part to its integration of the subjective factors recognized by conservatives and the objective factors recognized by liberals.

You are a living example of the importance of subjective factors. As I have said, you share with Robert Kennedy the rare ability to appreciate people at all stages of development as subjects with concerns and aspirations rather than objects with rights. *The Last Patrician* presented some of the evidence that Bobby appreciated the transcendental stages of subjective development and that his legendary connection with the poor in Mississippi and his ability to hear the voices of the poor in Bedford-Stuyvesant were because of this rare capacity.

What is still needed is a higher and more expansive Third Way, a political philosophy that integrates subjective and objective factors at all stages of development and in cultural as well as economic arenas. My colleagues and I continue to work on defining this, and it is becoming a centerpiece of my collaboration with Ken Wilber on the Integral Politics project of his Integral Institute. As America becomes more diverse, we will continue to be challenged by the false choice between cultural identity and national unity. That is why the next stage of the Third Way must include the integration of pluralism and universalism. And this universal pluralism will require decentralized and integrated governance. Morley Winograd and I continue to discuss this and agree that this is the future of governance. Don's Assemblies are an outstanding example of the local component of decentralized and integrated governance. New Markets has the potential to be an outstanding example of the federal component.

One principle of the next stage of the Third Way is that objective interventions, whether financial or technical, must be integrated with the recognition of subjective factors at the stages of development appropriate to particular communities. Combining New Markets with self-governance is a concrete example of a way to translate this principle into practice. Robert Kennedy thought the federal government and business community should invest in Bedford-Stuyvesant to bring it into full participation in the American community while allowing a high degree of local community self governance (and possibly some freedom from federal rules to enable more choices to be made there).

Susan and I have already discussed these ideas at some length with Hiram Eastland. Last summer at the National Conversation, the three of us met with Cindy Ayers-Elliot, an investment banker from Mississippi. She recognized the importance of community support structures and was very receptive to the idea of combining investment in microcredit with the Assemblies. It would be relatively easy to for the four of us to convene a group to assist you and the staff working on this in thinking through and planning this.

Enhancing your New Markets initiative with the Assemblies could be the best example to date of what Bobby advocated. It would reduce the cost of launching microcredit and digital divide initiatives and increase their effectiveness. This combination offers a perfect opportunity to advance empowerment of the poor to unprecedented levels. This could result in the most powerful anti-poverty initiative ever at a modest cost. Its philosophical foundation and practical effects would also allow you to present it as an outstanding example of using conservative means to liberal ends, with all the political benefits that implies.

We look forward to an opportunity to support you in this great endeavor.

In the meantime, much love and Godspeed.

Kindest regards,

Drexel

Drexel Sprecher
133 Kearny Street
San Francisco, California 94108

(415) 440-1111
drexel@americanrenaissance.com

President Clinton's Challenge To Invest In America's New Markets

New Markets

- **The President's New Markets Tour will Help Direct the Flow of Opportunity and Investment into Some of the Most Stubborn Pockets of Poverty in our Nation.** The President will not do so with big-government solutions more appropriate for an earlier time. Instead, he will expand on the innovative approach to community empowerment he and the Vice President have pioneered for nearly seven years. He will harness the entrepreneurial spirit and enlightened self-interest of the private sector to bring new capital and jobs to communities that the prosperity of the past 6 ½ years has passed by. The President will lead a bipartisan delegation of corporate CEOs, Members of Congress and Cabinet Secretaries on an unprecedented tour of communities in great need of capital and support. This four-day tour through America will shine a spotlight on the great potential of these untapped markets.

- **The President Will Be Traveling to the Following Communities Across the Nation.** (1) Annville, KY/Hazard, KY (Appalachia); (2) Clarksdale, Mississippi; (3) East St. Louis, IL; (4) Pine Ridge Indian Reservation, SD; (5) Phoenix, AZ; (6) Los Angeles, CA/Anaheim, CA On this trip, the President will mobilize a large and broad array of private-sector investments in our untapped domestic markets; highlight for the nation that these investments represent wise business decisions -- especially at this time of rapid economic growth, when firms are eagerly searching for new workers and new markets.

- **America is Enjoying a Time of Remarkable Economic Expansion.** Because this expansion has been so strong and so sustained, the benefits of economic growth have flowed to millions of people once cut off from the economic mainstream. Wages are rising and welfare rolls are shrinking. Unemployment has dropped from 7.2 percent to just 4.2 percent -- the lowest it's been since 1970.

- **Too Many Communities in America where Unemployment is Too High and Opportunity is Too Scarce.** In our inner cities, small- and medium-sized towns, rural areas, and Native American communities, there is consumer market that is grossly underdeveloped. There will never be a better time for America to develop this market.

- **Attracting New Investments.** Later this month, the President will announce legislation that -- through new tax incentives and investment tools -- will make it more attractive for corporate America to search for opportunities in places where they have rarely, if ever, looked before. These underserved areas or New Markets include economically devastated communities throughout the country. The President's New Markets initiative will provide to investors the same tax credits and loan guarantees already provided to investors in emerging economies overseas.

BACKGROUND ON THE CLINTON-GORE ADMINISTRATION'S COMMUNITY DEVELOPMENT RECORD

PRESIDENT CLINTON AND VICE PRESIDENT GORE'S SIX-YEAR RECORD OF PROMOTING GROWTH AND OPPORTUNITY IN AMERICA'S COMMUNITIES

Since 1993, President Clinton and Vice President Gore have been committed to tapping the potential of America's urban and rural communities. They have a demonstrated record of creating new initiatives and expanding existing initiatives to promote community and economic development. The Clinton-Gore Administration has worked with the private sector, states, and localities to help revitalize America's communities by bringing capital, jobs, and opportunity to distressed areas and cleaning up the urban environment. President Clinton and Vice President Gore have created or expanded the following initiatives over the last six years:

Helping to Bring Private Enterprise and Capital to Distressed Areas. The Clinton-Gore Administration has renewed the commitment of the Federal government to help bring private enterprise into underserved communities and improve access to capital for low-income households, minorities, and traditionally underserved borrowers.

- *125 Empowerment Zones and Enterprise Communities.* The Clinton Administration has announced 105 EZs and ECs across the country. This effort was proposed by President Clinton and passed by Congress in 1993. Since then, the EZ/EC effort has generated more than $2 billion of new private sector investment in community development activities. The President also has signed into law a second round of EZs -- 15 new urban and 5 new rural zones -- which will qualify for tax incentives, small business expensing, and private activity bonds. In FY 1999, President Clinton and Congress provided first-year funding of $55 million for the new EZs, and $5 million in first-year funding for 20 new rural Enterprise Communities announced in January.

- *Strengthened and Simplified the Community Reinvestment Act (CRA).* In April 1995, the Clinton Administration reformed the CRA regulations to emphasize performance. According to the National Community Reinvestment Coalition (NCRC), the private sector has pledged more than $1 trillion going forward in loans to distressed communities – and more than 95 percent of these financial commitments have been made since 1992. Banks made $18.6 billion in community development loans in 1997 alone. Lending to minority and low-income borrowers is also on the rise.

- *Created the Community Development Financial Institutions Fund (CDFI).* Proposed and signed into law by the President in 1994, the CDFI fund, through grants, loans, and equity investments, is helping to create a network of community development financial institutions in distressed areas across the United States. In FY99, funding was increased 19 percent to $95 million from $80 million.

- *The Economic Development Initiative (EDI) and Section 108 Loan Guarantee.* EDI grants are used to infuse capital into community development projects, enhancing the debt financing provided by the Section 108 loan guarantee program. Together, these programs support critical economic development in distressed communities. Estimated jobs supported by EDI and the Section 108 loan guarantee have grown by 300,000 from 1994 to 1998. During this time period EDI and the Section 108 loan guarantee programs have funded $3.5 billion for more than 650 separate project commitments.

<u>Helping to Bring Jobs and Opportunity to Distressed Areas.</u> A cornerstone of the Administration's community empowerment agenda is helping to bring jobs and opportunity back to distressed areas:

- *<u>$3 Billion Welfare-to-Work Jobs Initiative.</u>* The Clinton Administration fought for a $3 billion welfare-to-work jobs initiative as part of the 1997 Balanced Budget Agreement. The Administration is implementing these welfare-to-work grants directly to both cities and states for allocating additional resources to help long-term, hard-to-serve welfare recipients find and keep jobs.

- *<u>Welfare-to-Work Tax Credit and Work Opportunity Tax Credit.</u>* The Welfare-to-Work Tax Credit, enacted in the 1997 Balanced Budget Agreement, provides a credit equal to 35 percent of the first $10,000 in wages in the first year of employment, and 50 percent of the first $10,000 in wages in the second year, to encourage the hiring and retention of long-term welfare recipients. This credit complements the Work Opportunity Tax Credit, which expands eligible businesses to include those who hire young adults living in Empowerment Zones and Enterprise Communities.

- *<u>Community Development Block Grant (CDBG) Expansion.</u>* President Clinton's FY 2000 budget included an expansion of CDBG. The final budget increases funding for CDBG from $4.750 billion in FY 1999 to $4.775 billion in FY 2000, a $25 million expansion this year.

<u>Cleaning Up the Urban Environment.</u> The Clinton Administration has launched a landmark effort, including the Brownfields Tax Incentive, to clean up and redevelop Brownfields sites. In total, the Brownfields action agenda has marshaled funds to clean up and redevelop up to 5,000 properties, leveraging between $5 billion and $28 billion in private investment and creating and supporting 196,000 jobs.

PRESIDENT CLINTON AND VICE PRESIDENT GORE ARE BUILDING ON THEIR PAST ACHIEVEMENTS THROUGH A NUMBER OF NEW INITIATIVES THIS YEAR.
While Americans are enjoying the fruits of our strong economy, we still need to do more to improve conditions in underserved urban and rural communities. To address this need, President Clinton and Vice President Gore are working on several fronts.

<u>The New Markets Initiative.</u> President Clinton's FY 2000 balanced budget provides a new initiative designed to create the conditions for economic success by prompting approximately $15 billion in new investment in urban and rural areas through:

- *<u>The New Markets Tax Credit.</u>* To help spur $6 billion in new equity capital, this tax credit is worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds, and the new investment company programs created by this initiative (see below). A wide-range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores.

- *<u>America's Private Investment Companies (APICs).</u>* Just as America's support for the Overseas Private Investment Corporation helps promote growth in emerging markets abroad, APICs will encourage private investment in this country's untapped markets, by leveraging up to $1.5 bilion in investment in new development projects and larger businesses that are expanding or relocating in inner city and rural areas.

- *SBIC's Targeted to New Markets.* For over 40 years, SBA's Small Business Investment Company (SBIC) program has provided roughly $20 billion in equity and debt financing to more than 85,000 different companies, helping them to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited our cities and rural distressed communities. SBA now will offer more flexibility and new financing terms for SBICs that invest in underserved areas.

- *New Markets Venture Capital (NMVC) Firms.* NMVC firms will make both capital and expert guidance available to small business entrepreneurs in inner-city and rural areas. Ten to twenty NMVC firms are planned. SBA will match the equity and technical assistance of private investors.

- *New Markets Lending Companies (NMLC).* For the first time in many years, SBA will approve approximately 10 new non-bank lenders --- firms authorized to originate loans under SBA's largest loan program – the 7(a) General Business Loan Guaranty program. Under the 7(a) program, SBA guarantees up to 80 percent of a loan made by a lender to a creditworthy small businesses that cannot otherwise secure financing on reasonable terms. Firms must have a strategy to target lending to underserved areas.

- *Microenterprise Lending and Technical Assistance.* Microenterprise initiatives in the FY 2000 budget include the proposed PRIME Act, under which the CDFI Fund will provide microenterprise technical assistance through competitive grants to microenterprise development organizations that focus on low-income entrepreneurs. President Clinton's and Vice President Gore's proposal also includes a doubling of support for technical assistance in SBA's Microloan Program and a doubling of support for SBA lending to leverage over $75 million in new microlending. The microenterprise strategy will also involve new funding for Individual Development Accounts (IDAs) and for SBA's One-Stop Capital Shops.

- *Regional Connections.* Regional Connections will provide competitive funding to States and partnerships of local governments to develop and implement new, locally driven "smarter growth" strategies that create more livable communities by addressing economic and community development needs across jurisdictional lines. Regional Connections, as part of the Administrations' Livability Agenda, will complement existing federal programs that respond to growth and investment patterns. The budget proposes funding at $50 million in FY 2000.

- *The Economic Development Initiative and Section 108 Loan Guarantee Program.* This program supports critical economic development in distressed communities in conjunction with the Section 108 loan guarantee program to help bring economic development to residents. In FY 2000 many projects will be eligible to participate in the Community Empowerment Fund Trust, a pilot program, which will enable the pooling of loans and the creation of a private sector secondary market for economic development loans. The CEF specifically targets Welfare-to-Work and City-Suburb Business Connections, building upon the success of HUD's EDI and Section 108 loan guarantee program.

- *Empowerment Zones and Enterprise Communities.* The FY 2000 Budget proposes mandatory funding for ten years: $150 million a year for urban EZs and Strategic Planning Communities; $10 million a year for rural EZs; and $5 million a year for rural ECs.

- *Community Development Financial Institutions (CDFI) Fund.* The budget proposes to expand funding for the CDFI Fund to $125 million--a $30 million increase from 1999. The Fund increases the availability of credit, investment capital, financial services, and other development services in distressed communities.

- *BusinessLINC.* The President's FY 2000 budget includes seed money to expand Business LINC --- an innovative public-private partnership launched by Vice President Gore --- for new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to work with small business owners and entrepreneurs.

- *Low-Income Housing Tax Credit.* Since its creation in 1986, the Low-Income Housing Tax Credit (LIHTC) has given states tax credits of $1.25 per capita to allocate to developers of affordable housing. While building costs have increased 40 percent in the last decade, the amount of the credit has not been adjusted for inflation. Therefore, President Clinton and Vice President Gore propose to increase the cap on the LIHTC from $1.25 per capita to $1.75 per capita -- restoring the value of the credit to its 1986 level and helping to an create additional 150,000-180,000 new low-income rental housing units over the next five years.

- *Play-by-the-Rules.* This program will allow renters with solid payment track records to own a home. The FY 2000 Budget proposes a second round of $15 million for this initiative.

- *Helping America's Communities Redevelop Abandoned Buildings.* Redevelopment of Abandoned Buildings, as part of the Administrations' "Livability Agenda," would attack one of the primary causes of blight in urban neighborhoods: abandoned apartment buildings, single-family homes, warehouses, office buildings, and commercial centers. Under the proposal, HUD will provide $50 million in competitive grant funds in FY2000 to local governments to support the demolition or deconstruction of blighted, abandoned spaces.

The President's Trip to America's New Markets

Below is a short profile on each of the communities the President will visit. These communities represent a broad range of communities that reflect the cultural and geographic diversity of the country. Each community allows the President to call attention to the need for access to capital in economically distressed areas, as well as identify the economic potential for investment in these under-served markets.

- **Annville/Hazard, Kentucky:** The President is traveling to Kentucky to call attention to the need for investment in Appalachia and new market opportunities in these rural areas.

- **Clarksdale, Mississippi:** The President is traveling to Clarksdale – a rural community in the Mississippi Delta – to focus on investment in the Delta and rural new markets.

- **East St. Louis:** East St. Louis is an empowerment zone community. The President is traveling to East St. Louis to call attention to the economic problems in former industrial centers and new market opportunities in urban enterprise zone communities.

- **Pine Ridge Indian Reservation, South Dakota** President Clinton will travel to Pine Ridge to call attention to the lack of private sector investment in Native American communities. Pine Ridge is the first Enterprise Zone on a reservation.

- **South Phoenix, AZ:** South Phoenix is historically one of the poorest neighborhoods in the city. The President is traveling to South Phoenix – an Enterprise Community with a large Hispanic population – to call attention to the need for access to capital in Hispanic communities.

- **Los Angeles/Anaheim, CA:** The President is traveling to LA to call attention to the need to provide job training to disadvantaged youth, and the new market potential in tapping a new, productive workforce. The President will travel to Anaheim to encourage private sector workforce investments in disadvantaged youth.

New Markets

PROMOTING INVESTMENT IN AMERICA'S NEW MARKETS
January 15, 1998

Despite the longest peacetime economic expansion in history, marked by tremendous business and job growth, and much capital in search of good investment opportunities, many urban and rural areas of the country have not participated in the capital investment that has spurred job growth and economic development elsewhere at home and abroad. President Clinton's commitment to building one America is a commitment to making progress for all Americans, in every home and community in the nation.

President Clinton challenged the leaders of Wall Street, who are fueling America's economic growth, to take the lead in investing in America's own "New Markets" -- inner-city areas, like New York's East Harlem, and distressed rural areas like parts of Appalachia. The President's FY 2000 balanced budget includes a new initiative designed to create the conditions for success by:

- providing tax credit and loan guarantee incentives to stimulate billions of new private capital investment in targeted areas;
- building a network of private investment institutions to funnel credit, equity, and technical assistance into businesses in America's new markets; and
- providing the expertise to targeted small businesses that will allow them to use new investment to grow.

WORKING WITH EXPERTS AND CONGRESS

The President's New Markets Initiative was developed by an Administration task force that consulted with investment advisors, community development financial and venture capital pioneers, and Members of Congress who have lead efforts to promote investment in underserved areas. President Clinton has laid out a solid framework from which to build, but he will further solicit the reactions and ideas of a wide range of experts and Congressional leaders before he sends the legislation to Congress.

HARNESSING THE POWER OF THE PRIVATE MARKET TO REVITALIZE COMMUNITIES

The New Markets initiative will prompt approximately $15 billion in new investment in urban and rural areas through:

1. ***The New Markets Tax Credit*** -- To help spur $6 billion in new equity capital for investment in America's New Markets, President Clinton has proposed a tax credit worth up to 25 percent for investments in a wide range of vehicles serving these communities, including community development banks, venture funds and corporations, the new investment company programs announced by the President (see descriptions below), and other targeted investment funds. Credits would be allocated to the targeted investment vehicles which could use the tax credits to attract investors. The investment funds would make their own decisions about what investments or loans to make to help create and grow businesses in the New Markets. A wide range of businesses could be financed by these investment funds, including small technology firms, inner-city shopping centers, manufacturers with hundreds of employees, and retail stores.

2. *America's Private Investment Companies (APICs)* -- For years, America has supported OPIC, the Overseas Private Investment Corporation, to promote growth in emerging markets abroad. Now we must do the same thing in America's New Markets. Under this program, investors will put a minimum of $100 million in equity into new private investment partnerships to be known as America's Private Investment Companies (APICs). HUD and SBA working together will provide up to another $200 million in loan guarantees for each. APICs will make equity investments in larger businesses that are expanding or relocating in inner cities and rural areas. Under the financing structure, the private investors' funds are at risk ahead of the government. However, the individual investment decisions must be approved by the government for consistency with the public policy mission of the program.

3. *SBICs Targeted to New Markets* --Over 40 years, the SBA's small business investment company (SBIC) program has provided roughly $20 billion in equity and debt financing to more than 85,000 different companies, helping them at a critical stage to grow from small businesses to household names, like AOL and Staples. However, too little of the capital invested has benefited our cities and rural distressed communities. Last summer, the Vice President challenged the SBA to find ways to meet better the needs of minority firms and underserved markets. In response, SBA determined that, under existing legislation, the Agency can offer more flexibility and new financing terms to make it more attractive for SBICs to invest in businesses in low and moderate income (LMI) areas. Specifically, SBICs making LMI investments will be eligible for a new type of federally guaranteed loan to augment their capital for business investment. Interest on the guaranteed funding will be deferred for the first five years of the 10-year term to give SBICs more time to nurture their investments in small businesses before they must produce a return. In addition, SBA will conduct an aggressive outreach campaign around the country to promote LMI investments.

4. *New Markets Venture Capital Firms (NMVCs)* -- There are thousands of inner-city and rural entrepreneurs who need both capital and expert guidance to transform their small businesses and great ideas into thriving companies. SBA will select ten-to-twenty NMVC firms whose management has successful records in community-based venture capital. The equity funds of private investors will be matched with government debt guarantees of up to $10 million per NMVC, with interest on the debt deferred. Investors

must also provide at least $1.5 million in technical assistance over five years to the target firms, matching SBA's grants of technical assistance. The program should provide long-term, patient growth capital and facilitate critically needed technology and management skills development for smaller businesses in new markets.

5. *New Markets Lending Companies (NMLC)* -- For the first time in many years, SBA will approve approximately 10 new non-bank lenders -- firms authorized to originate loans under SBA's largest loan program -- the 7(a) General Business Loan Guaranty program. Under the 7(a) program, SBA guarantees up to 80% of a loan that is made by a lender to a creditworthy small business that cannot otherwise secure financing on reasonable terms. The firms selected must have a strategy to target their lending to underserved areas.

6. *Continued Growth for CDFIs* -- The President's initiative to develop community development financial institutions (CDFIs), locally-based institutions with expertise in lending and investment in underserved areas, will continue to grow. His FY 2000 balanced budget will include $125 million for the CDFI fund. Thus far, CDFI has made over $180 million in awards to community development organizations and financial institutions.

7. *BusinessLINC* -- The President's budget will include $3 million in seed money to expand BusinessLINC -- an innovative public-private partnership launched by Vice President Gore and led by Treasury Secretary Rubin and SBA Administrator Alvarez -- to new markets in economically distressed communities. BusinessLINC (Learning, Information, Networking and Collaboration) is designed to encourage large businesses to work with small business owners and entrepreneurs in order to improve the economic competitiveness of smaller firms located in distressed areas, both urban and rural. The funds will be used to leverage private sector efforts to spur new BusinessLINC partnerships at the national and local level.

8. *Specialized Small Business Investment Companies (SSBICs)* -- The President's budget will expand current tax incentives to increase the amount of equity capital available to economically disadvantaged people by making it easier for Specialized Small Business Investment Companies (SSBICs) to qualify as tax-favored regulated investment companies.