



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 13, 1997

BRIEFING MEMORANDUM FOR DEPUTY SECRETARY SUMMERS

FROM: Mozelle W. Thompson ^{WT}
Principal Deputy Assistant Secretary
(Government Financial Policy)

SUBJECT: USEC Privatization

ACTION FORCING EVENT

Tomorrow afternoon there will be a NEC Deputies meeting to discuss USEC privatization and preparation of a Presidential approval memorandum. We believe that based on the additional information we have examined, we should support proceeding with the privatization process and the NEC should prepare a decision memorandum for the President approving implementation of USEC's privatization plan.

DISCUSSION

As you may recall, last Fall when the NEC Deputies last met on USEC privatization, there were three pending issues. The current status of those issues are discussed below.

1) *Would the USEC privatization be able to satisfy the statutory "national security test" set forth in the Energy Policy Act (the "Act"), in light of the then-pending U.S./Russia uranium sale negotiations?*

Last fall, the U.S. and Russia successfully concluded negotiations that resulted in a five year uranium sale agreement that included USEC as executive agent for the sale of Russian uranium. Last week, the NSC met to determine whether its members had any new questions that would prompt them to reverse the NSC's prior determination that the proposed USEC privatization would be able to meet the Act's national security test. (Although neither Treasury nor OMB were invited to attend this meeting, we both expressed strong objection after we learned that the meeting had occurred.) The NSC affirmed its prior determination but asked that we include additional foreign ownership protections in the privatization process.

2) *Would the USEC privatization be able to satisfy the statutory requirement that the proceeds of sale exceed USEC's "in-government" value (the "net-present value" test)?*

Economic policy has affirmed Domestic Finance's prior conclusion that at this stage, it appears that the proposed privatization will be able to meet the Act's net present value test.

3) *Should the U.S. government immediately appoint a second executive agent (in addition to USEC) to sell uranium received from Russia pursuant to U.S./Russia uranium sale agreement?*

CEA raised this issue last year, but they have not pressed the point because the five-year U.S./Russia uranium contract may have mooted some of the CEA's objections. CEA was initially concerned that because the original U.S./Russia agreement was subject to annual negotiation as to price and quantity, USEC would not have an incentive to timely perform its contractual obligations because it was not economical for USEC to do so. The contract's benefit for USEC, however, was that it gave USEC the exclusive right to market Russian warhead-derived uranium. CEA contended that USEC would have greater incentive to perform if the U.S. government immediately appointed a second executive agent. The fact that there is now a five-year agreement that includes USEC as sole executive agent, eliminates most opportunities for "gaming" by USEC. Moreover, we successfully negotiated a contractual provision that would allow the U.S. government to add or replace executive agents at any time. It therefore seems that the matter is a question of choice. If we decide to limit USEC's monopoly power by immediately seeking a second executive agent, we must be willing to accept some diminution in sale value. If we decide to allow USEC to remain exclusive executive agent, we can maximize sale value. Since there is some question whether there is a suitable second agent available, the best choice is to allow USEC to retain exclusive agency for five years, the term of the current Russian contract.

cc: Assistant Secretary Gotbaum

Alan-
original
to LS 5/13
830 PM



DEPARTMENT OF THE TREASURY
WASHINGTON

GENERAL COUNSEL

August 19, 1996

MEMORANDUM FOR ROBERT E. RUBIN
SECRETARY OF THE TREASURY

LAWRENCE H. SUMMERS
DEPUTY SECRETARY OF THE TREASURY

JOHN D. HAWKE, JR.
UNDER SECRETARY FOR DOMESTIC FINANCE

MOZELLE W. THOMPSON
PRINCIPAL DEPUTY ASSISTANT SECRETARY
(GOVERNMENT FINANCIAL POLICY)

FROM:

EDWARD S. KNIGHT
GENERAL COUNSEL

Edward S. Knight

SUBJECT: Significant Legal Issues Raised by the United States Enrichment Corporation (USEC) Privatization

In order to stimulate discussion and to convey our preliminary thoughts regarding the USEC privatization, I am providing you with a brief overview of the significant legal issues that Treasury will face in the USEC privatization. In preparation for a potential USEC privatization action, my office has been actively engaged on USEC privatization issues since January 1993. During this phase, we have worked closely with Domestic Finance, met with USEC's in-house and outside counsel, and met with the Securities and Exchange Commission's General Counsel. In addition, we have contacted the Department of Energy's General Counsel to discuss the USEC privatization.

I. Background

Briefly, the following facts are significant to Treasury's interest at this stage of the USEC privatization:

- **TREASURY IS THE SOLE STOCKHOLDER OF USEC.** Treasury holds all of the USEC stock for the United States, except:
 - all the rights and duties pertaining to the management of the USEC are vested in the USEC Board.
 - Treasury may not sell, transfer, or convey USEC stock except to carry out a privatization plan.
- **UNIQUE ROLE OF THE PRESIDENT.** Presidential approval is required before the USEC Board may implement any privatization plan.

● **TREASURY HAS A SIGNIFICANT ROLE IN USEC PRIVATIZATION.**

- Based on certain statutory requirements,¹ the USEC Board, with the approval of Treasury, shall approve the method of privatization (M&A vs. IPO) and the terms and conditions for the transfer.
- The USEC Board, with the approval of Treasury, shall transfer USEC's assets and obligations to a private corporation.
- Based on certain statutory requirements,² the USEC Board, with the approval of Treasury, shall transfer the interest of the United States in the USEC to the private sector.
- Treasury shall not approve the USEC privatization unless before the sale date Treasury determines that the method of transfer will provide the maximum proceeds to the Treasury consistent with the four statutory requirements listed in footnote 2.

● **POTENTIAL LIABILITY OF THE TREASURY OR TREASURY OFFICIALS IN CONNECTION WITH THE USEC PRIVATIZATION**

- **No right of action against the United States, its**

¹ The requirements are that the method of transfer and terms and conditions for the transfer will provide--(i) the maximum proceeds to the Treasury of the United States; (ii) for the long-term viability of the private corporation; (iii) for the continued operation of the gaseous diffusion plants; and (iv) for the public interest in maintaining reliable and economical domestic uranium mining and enrichment industries. (A cautious reading of the statute suggests that these statutory requirements should be considered together with the determinations listed in footnote 3.)

² The requirements are that the interest of the United States in the USEC shall be transferred to the private sector in a manner that provides for--(i) the long-term viability of the private corporation, (ii) the continued operation of the gaseous diffusion plants, (iii) the public interest in maintaining a reliable and economical source of domestic uranium mining, enrichment and conversion services, and (iv) to the extent not inconsistent with such purposes, secures the maximum proceeds to the United States. (A cautious reading of the statute suggests that these statutory requirements should be considered together with the determinations listed in footnote 3.)

agents or officers for claims arising out of privatization actions.

- 0 The statute specifically revokes any stated or implied consent for the United States, or any agent or officer of the United States, to be sued by any person for any legal, equitable, or other relief with respect to any claim arising from any action taken by any agent or officer of the United States in connection with the privatization of USEC.

II. Legal Issues

Briefly, I have identified significant Treasury legal issues at this stage of the USEC privatization as follows:

- **SCRUTINY OF TREASURY.** Although there is no legal liability for USEC privatization actions, Treasury officials will be subject to scrutiny for any USEC privatization actions.
 - 0 Congressional interest in USEC privatization.
- **APPROPRIATE AGENCY.** Subsequent to receiving Presidential approval, USEC must determine, in consultation with appropriate agencies of the United States, that privatization will satisfy certain statutory determinations prior to implementing the Privatization Plan.
 - 0 Appropriate Treasury role with respect to these four requirements.
 - 0 **NEC has apparently envisioned a significant Treasury role on these four requirements.**
 - 0 Statute does not define "implementation" of the Plan.
 - 0 Apply conditions only at beginning of privatization vs. apply conditions throughout privatization process.
 - 0 How to apply the four conditions.
 - 0 Interagency mechanism for coordination.
 - 0 Process for approval by other agencies on statutory

³ USEC must determine, in consultation with appropriate agencies of the United States, that privatization will--(i) result in a return to the United States at least equal to the net present value of USEC; (ii) not result in USEC being owned, controlled or dominated by an alien, a foreign corporation, or a foreign government; (iii) not be inimical to the health and safety of the public or the common defense and security; and (iv) provide reasonable assurance that adequate enrichment capacity will remain available to meet the domestic utility industry.

- requirements.
- Ensuring a complete record of all determinations.
- **STATUTORY CRITERIA FOR TREASURY APPROVAL.**
 - Differences in the statutory criteria for Treasury approval regarding--
 - method of privatization;
 - transferring the interest of the United States to the private sector; and
 - determining that the method of transfer will provide maximum proceeds to the United States.
 - Ensuring a complete record of all determinations.
- **REPRESENTATIONS AND WARRANTIES.** Determination as to whether Treasury should make any representations and warranties in connection with the USEC privatization.

We are currently reviewing a preliminary information package prepared by USEC for the M&A sale process. Many of our comments on this document are contingent on your determination of the appropriate Treasury role in the USEC privatization.

My office is available to assist your offices on these issues as well as any other USEC privatization issues that may arise. It may be useful for all of us to get together and discuss the USEC privatization.

TREASURY CLEARANCE SHEET

NO.

Date:

- MEMORANDUM FOR: SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY
- ACTION BRIEFING INFORMATION LEGISLATION
- PRESS RELEASE PUBLICATION REGULATION SPEECH
- TESTIMONY OTHER

FROM: Edward S. Knight

THROUGH:

SUBJECT: Significant Legal Issues Raised by the United States Enrichment Corporation (USEC) Privatization

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NAME	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
REVIEWERS				
Edward S. Knight	esk		General Counsel	622-0027

SPECIAL INSTRUCTIONS:

Review Officer

Date

Executive Secretary

Date

ADMINISTRATION HISTORY APPENDIX
CHAPTER FOUR: INCREASING ECONOMIC
OPPORTUNITY

BROWN
FIELDS

155234

The Deputy Secretary of the Treasury

February 9, 1996

MEMORANDUM TO SECRETARY RUBIN
LES SAMUELS
MICHAEL BARR

FROM: LAWRENCE SUMMERS 

SUBJECT: Brownfields Tax Credit
Policy

Gene Sperling called at defcon 8 on a 10 scale over the following:

He is concerned that our Brownfields tax credit policy not be construable as an early year tax increase in an even superficially plausible political commercial. Can we make sure on this?

Room 3326

622-1080

ADMINISTRATION HISTORY APPENDIX
CHAPTER FOUR: INCREASING ECONOMIC
OPPORTUNITY

BUSINESSLINC



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

July 15, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: Lawrence H. Summers *LH*

SUBJECT: New Markets: Report on Visit to Harlem, USA and New York BusinessLINC

Harlem

Last Thursday, I visited Harlem, USA, a major retail and entertainment center under construction at 125th Street and Frederick Douglass Boulevard which has been supported by the New York Empowerment Zone, Chase Manhattan Bank (as part of its CRA-related activities), and other investors. I learned the following, striking – to me – facts:

- Within one square mile of this shopping center is a population of 360,000: more than Cincinnati, our 45th largest city. Upper Manhattan as a whole is the size of Seattle, the 22nd largest.
- There is no shopping mall in Harlem or – until recently – a major supermarket. Nor, I was told, has there been any major retail construction in Harlem since World War II.
- The Harlem, USA project has been associated with some general economic revival. The mall is 80% leased and its major corporate tenants – never before represented in Harlem – will pay rents more than twice as high as rents in the area before the mall was built. Local land prices have risen up to five-fold in the last 5 years (as much as technology stocks), and developers have had trouble purchasing even vacant lots.
- The mall – which will open before Christmas – was built with financing of \$65 million, including an \$11 million subordinated loan from the Empowerment Zone. It will generate around \$180 million in retail sales. According to one study, 60 percent of retail spending leaves the community – equal to almost \$1 billion annually. And it should produce approximately \$15 million in New York City sales tax collections. In other words, the public sector will be paid back in nine months of tax collections.
- Roughly 600 new jobs are expected to come out of the project, and mall tenants have agreed to allot 75 percent of slots to local residents. In 1990 – the most recent date for which the local rate has been calculated – Harlem's unemployment rate was 18.6%, three times the national average.

In short, Harlem right now appears to be a real emerging market, in the sense that capital is trying to get in rather than out. Indeed, at my press conference an observer contrasted

Harlem and all its new construction activity with the "poor and depressed" areas that you were visiting on your New Markets tour – underestimating both Harlem's continued needs and the economic potential of these other communities.

New York and BusinessLINC

We announced the formation of a local New York City BusinessLINC coalition at a roundtable with David Rockefeller, Henry Kravis, the new Chase CEO Bill Harrison and other corporate and community leaders. I was struck by the importance that both the financiers and those who had been in community development for many years put on equity investment, and on providing new market businesses with the opportunity to network with mainstream businesses and obtain business advice and information on market opportunities. Indeed, several people said that access to markets and expertise is sometimes more critical than access to capital, even if capital remains an important barrier for some.

I was impressed with the number of stories about mainline finance – from banks and other institutions – going into minority-owned and inner city businesses. Investments in one Hispanic entrepreneur's internet start-up had paid off nearly fifty to one, and people were rushing to get in to the next round. (Of course, most inner city businesses will not be able to come close to meeting the expected rates of return that venture capital firms demand but the story was an encouraging one.)

Conclusions

The challenge for us in spurring capital access is to catalyze private sector lending and investment in projects that are profitable but also would not have taken place without the public sector's intervention. Given the unmet demand for equity finance, I believe that the New Markets Initiative is properly focused on equity investment and technical assistance to new businesses, along with access to credit. The real test of what we are doing with the New Markets Initiative will be whether we can sustain the flow of capital and the business connections that are now being made when the next downturn comes.

Next Steps

We are working with the NEC and your scheduling office to set up an event for you to announce that Peter Bijur, CEO of Texaco, has agreed to chair a National BusinessLINC Coalition under the auspices of the Business Roundtable. We will also announce the formation of several local BusinessLINC coalitions, building on our announcement last Thursday of the formation of the New York City coalition. We are also actively seeking congressional co-sponsors for the New Markets Tax Credit, which we hope will be introduced soon in Congress. We also need to reach out broadly to the business community, both about the business opportunities in new markets and about how the New Markets Initiative, if enacted, would catalyze more private sector investment in these markets.

cc: The Vice President; The First Lady; Secretary Cuomo; Gene Sperling.

TREASURY CLEARANCE SHEET

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Date: _____

MEMORANDUM FOR:

POTUS

- SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY
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FROM:

SECRETARY SUMMERS

THROUGH:

SUBJECT:

NEW MKTS TRIP

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WOLIN			ACTING GC	
STERN			COUNSELOR TO SECY	

SPECIAL INSTRUCTIONS

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DAVID ICKSON BY COB TODAY
THURSDAY, JULY 15

Review Officer

Date

Executive Secretary

Date

TREASURY CLEARANCE SHEET

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- The mall – which will open before Christmas – ^{– equal to almost \$1 billion annually} was built with financing of \$65 million, including an \$11 million subordinated loan from the Empowerment Zone. It will generate around \$180 million in retail sales, ^{According to one study,} 60 percent of which ~~usually~~ leaves the community, ~~according to some studies.~~ ^{retail spending} And it should produce approximately \$15 million in New York City sales tax collections. In other words, the public sector will be paid back in nine months of tax collections.
- Roughly 600 new jobs are expected to come out of the project, and mall tenants have agreed to allot 75 percent of slots to local residents. In 1990 – the most recent date for which the local rate has been calculated – Harlem's unemployment rate was 18.6%, three times the national average.

In short, Harlem right now appears to be a real emerging market, in the sense that capital is trying to get in rather than out. Indeed, at my press conference an observer contrasted Harlem and all its new construction activity with the "poor and depressed" areas that you were visiting on your New Markets tour — ^{with} ~~underestimating~~ Harlem's continued needs and the economic potential of these other communities.
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Conclusions

The challenge for us in spurring capital access is to catalyze private sector lending and investment in projects that are profitable but also would not have taken place without the public sector's intervention. Given the unmet demand for equity finance, I believe that the New Markets Initiative is properly focused on equity investment and technical assistance to new businesses, along with access to credit. The real test of what we are doing with the New Markets Initiative will be whether we can sustain the flow of capital and the business connections that are now being made when the next downturn comes.

Next Steps

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CC: The Vice President; The First Lady; Secretary Cuomo; Gene Sperling.

Addendum:

According to the former head of the Upper Manhattan EZ, the Harlem portion of the EZ has committed \$125 million of its \$300 million (which includes \$200 million from the state and city), and has disbursed \$35 million. The EZ investments have generated \$3.55 of private and other investment for each \$1.00 of EZ funding. Funding is slower than expected due to a slow start organizationally, political processes, and the approval of some projects requiring up-front commitments, but slower disbursements.

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FROM: SECRETARY SUMMERS

THROUGH: _____

SUBJECT: NEW MKTS TRIP

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CC: The Vice President; The First Lady; Secretary Cuomo; Gene Sperling.

Addendum:

According to the former head of the Upper Manhattan EZ, the Harlem portion of the EZ has committed \$125 million of its \$300 million (which includes \$200 million from the state and city), and has disbursed \$35 million. The EZ investments have generated \$3.55 of private and other investment for each \$1.00 of EZ funding. Funding is slower than expected due to a slow start organizationally, political processes, and the approval of some projects requiring up-front commitments, but slower disbursements.

TREASURY CLEARANCE SHEET

No. _____

Date: _____

MEMORANDUM FOR:

POTUS

- SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY
- ACTION BRIEFING INFORMATION LEGISLATION
- PRESS RELEASE PUBLICATION REGULATION SPEECH
- TESTIMONY OTHER _____

FROM:

SECRETARY SUMMERS

THROUGH:

SUBJECT:

NEW MKTS TRIP

REVIEW OFFICES (Check when office clears)

- Under Secretary for Finance
 - Domestic Finance
 - Economic Policy
 - Fiscal
 - FMS
 - Public Debt
- Under Secretary for International Affairs
 - International Affairs

- Enforcement
 - ATF
 - Customs
 - FLETC
 - Secret Service
- General Counsel
- Inspector General
- IRS
- Legislative Affairs
- Management
- OCC

- Policy Management
 - Scheduling
- Public Affairs/Liaison
- Tax Policy
- Treasurer
 - E & P
 - Mint
 - Savings Bonds
- Other _____

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
<p>INITIATOR(S)</p> <p>Flanders/ Ickerson</p>		7/15/99	Sec/Exec Sec	2-0798
<p>REVIEWERS</p> <p>GENSLER/BANK</p> <p>WOLIN</p> <p>STERN</p>	TS ON MDE		DOM FIN ACTING GC COUNSELOR TO SECY	

SPECIAL INSTRUCTIONS

PLEASE PROVIDE CLEARANCE TO
DAVID ICKSON BY COB TODAY
THURSDAY, JULY 15

Review Officer

Date

Executive Secretary

Date

Prepared by Stephanie
Flanders

see clearance sheets
attached

NCC to LS (signature)
LS signed
NCC cc to TS
SS
7/15/99 SE

Osie original to WH
7/16/99

Please log IN



DEPARTMENT OF THE TREASURY
WASHINGTON

ACTION

MEMORANDUM FOR SECRETARY RUBIN

THROUGH:

Nancy Killefer *Nancy Killefer*
Assistant Secretary for Management
and Chief Financial Officer

David Wilcox *DW*
Assistant Secretary for Economic Policy

FROM:

Theodore N. Carter *TC*
Deputy Assistant Secretary
Management Operations

Lynda Y. de la Viña *LYV*
Deputy Assistant Secretary for Economic Policy

Michael S. Barr *MSB*
Deputy Assistant Secretary for Community Development Policy

SUBJECT: Treasury Initiatives to be Announced at the BusinessLINC Roundtable

SUMMARY:

On June 5, 1998, Vice-President Gore announced the BusinessLINC initiative to encourage large businesses to mentor small businesses in order to enhance the competitive capacity of small, minority, and women-owned businesses, particularly those located in economically distressed areas. The Department of Treasury and the SBA were requested to co-chair the initiative. As a result, two Department of Treasury initiatives have been developed: a BusinessLINC website created by Economic Policy in coordination with SBA and *Success Partnerships* designed by Economic Policy and Management Operations. The framework of *Success Partnerships*, a business development and procurement initiative, is outlined in this memorandum.

Success Partnerships is a program that adds a business mentoring dimension to the current small business prime contracting and subcontracting activities of the Department. A three-phase approach, piloted over a three-year period, is envisioned:

Executive Secretariat - ve

- a. **Phase 1 (FY 1999):** features a Treasury/SBA partnership in which firms already designated by the SBA as 8(a) contractors, serve as Treasury prime contractors. In this phase, the 8(a) prime contractor would be mentored by its partner, typically a much larger firm.
- b. **Phase 2 (FY 2000):** features a mentor-protégé program (similar to those in place at other federal agencies) with agreements between a large or small prime contractor mentor and an eligible small business protégé.
- c. **Phase 3 (FY 2001):** focuses on small businesses located in economically distressed areas by having Treasury join the federal HUBZone procurement program, on September 30, 2000 (to be incorporated into the programs cited in Phases 1 and 2).

This program will help the Department meet our small business prime and subcontracting goals. As you are aware, there is significant concern in the small business community regarding the ability of small firms to win government contracts due to streamlined procurement practices and contract bundling. The Department of the Treasury has not established a mentor-protégé program. Given the Department's increasing role in small business advocacy, and as the lead agency promoting the BusinessLINC program, we are recommending the Department establish *Success Partnerships*, a mentor-protégé program. All aspects of the program have been vetted by the Office of the General Counsel and chief procurement officers and small business specialists of all Treasury bureaus.

We also believe that we must do more in the future to ensure that the Department's small business activities are supported at the highest levels. Therefore (for your information), you will soon be presented with a memorandum to the Bureau Heads for your signature which announces their 1999 procurement goals and directs them to review their existing procurement structure to ensure small business activities are supported at the highest levels.

ACTION FORCING EVENT:

The Department of the Treasury co-chairs BusinessLINC with the SBA. On December 16th the Vice President will convene a CEO Roundtable where the CEOs will discuss their company's efforts to form relationships with small businesses and announce new company initiatives related to mentor-protégé issues. It is conceivable that you may be asked about current Treasury procurement practices and about innovative Treasury initiatives in this area.

RECOMMENDATION:

That the Department of the Treasury create *Success Partnerships: A Treasury Mentor-Protégé Program* and proceed with a public announcement of the Department's intention at the December 16th meeting of the Vice President's CEO BusinessLINC Roundtable.

Agree **Disagree** **Let's Discuss**

cc: Deputy Secretary Summers
Assistant Secretary Gensler
Kenneth Schmalzbach, Office of General Counsel

Attachment

SUCCESS PARTNERSHIPS
**The U.S. Department of the Treasury Mentor-Protégé
Program (Three-Phase Approach)**
A Summary Document

Program Purpose *Success Partnerships* is a voluntary program designed to:

- provide small business development opportunities consistent with the lessons learned in the BusinessLINC initiative
- increase the participation of small businesses, small disadvantaged businesses, women-owned small businesses, and small businesses in historically underutilized business zones (HUBZone) as Treasury contractors and subcontractors
- provide developmental opportunities in conjunction with the SBA's Mentor-Protégé and 8(a) programs
- provide non-monetary incentives to Treasury prime contractors to provide developmental assistance that will enhance the capabilities of small businesses
- foster the establishment of long-term business relationships between small companies and larger prime contractors

The Department of Treasury is sponsoring a three-phase approach to *Success Partnerships* to be piloted over a three-year period:

Phase 1 (FY 1999): features a Treasury/SBA partnership in which firms already designated by the SBA as 8(a) contractors serve as Treasury prime contractors. Under this phase, the 8(a) prime contractor would be mentored by its partner, typically a much larger firm.

Phase 2 (FY 2000): features a mentor-protégé program (similar to those in place at other federal agencies) with agreements between a large or small prime contractor mentor and an eligible small business protégé.

Phase 3 (FY 2001): features a focus on small businesses located in economically distressed areas based on the application of the federal HUBZone procurement program to Treasury, as mandated by statute, on September 30, 2000 (to be incorporated into the programs cited in Phases 1 and 2).

Treasury Benefits

Benefits to the Department of the Treasury include, but are not limited to: acquiring an expanded base of qualified small businesses; obtaining more competitive pricing on procurement opportunities resulting in cost savings; and achieving a potential increase in small business program goal accomplishments.

Phase 1: features a Treasury/SBA partnership to use the 8(a) program and SBA's mentor-protégé program for developing 8(a) firms.

- (a) Phase 1 will be implemented through a Memorandum of Understanding between Treasury and SBA.
- (b) The SBA/Treasury *Success Partnerships* Phase 1 program is designed to encourage approved mentors to provide various forms of assistance to eligible participants. This assistance may take the form of technical and/or management assistance; financial assistance in the form of equity investments and/or loans, as well as assistance in performing prime contracts with Treasury in the form of joint venture arrangements. The purpose of the SBA/Treasury *Success Partnerships* relationship is to enhance the capabilities of small companies, and to improve their ability to compete successfully for contracts with Treasury. *Primarily, Phase 1 serves as a prime contracting assistance tool.*

Measurement of Program Success for Phase 1

Program performance will be measured by:

- (a) An increase in the quality of the technical capabilities of the protégé firm.
- (b) An increase in the number and dollar value of contract and subcontract awards to protégé firms since the time of their entry into the program (under Treasury contracts, contracts awarded by other Federal agencies and commercial contracts.)
- (c) An increase in protégé contracting and subcontracting activity in industry categories in which these firms have not traditionally participated.
- (d) In accordance with SBA's procedures, the 8(a) protégé firm shall submit to SBA an evaluation of its mentor-protégé relationship as part of its annual business plan with a copy to Treasury's Office of Small Business Development.

Phase 2: features a mentor-protégé program (similar to those in place at other federal agencies) with agreements between a large or small prime contractor/mentor and an eligible small business protégé.

- (a) Phase 2 will be implemented through a Treasury supplement to the FAR. This is a formal rule making process requiring notice in the Federal Register, opportunity for public comment, review by the Federal Acquisition Council and publication as a final regulation in the Federal Register.
- (b) Proposals submitted by *Success Partnerships* teams in response to a Treasury solicitation will be eligible for some evaluation points as part of the subcontracting plan evaluation in accordance with applicable SBA subcontracting regulations. A source selection evaluation factor or subfactor may be added to benefit small disadvantaged businesses (SDBs) in competitive negotiated procurements in the SIC Major Groups as provided in federal procurement changes effective January 1, 1999. *Primarily, Phase 2 serves as a subcontracting assistance tool.*

Special Requirements for Phase 2

Application and Agreement Processes

Firms interested in becoming a mentor firm must apply in writing to the Department of the Treasury's Office of Small Business Development. The proposed process for mentor-protégé participation will be outlined in the Federal Register announcement.

Measurement of Program Success for Phase 2

Program performance will be measured by:

- (a) An increase in the quality of the technical capabilities of the protégé firm.
- (b) An increase in the number and dollar value of contract and subcontract awards to protégé firms since the time of their entry into the program (under Treasury contracts, contracts awarded by other Federal agencies and commercial contracts.)
- (c) An increase in protégé contracting and subcontracting activity in industry categories in which those firms have not traditionally participated.

Additionally, a written "lessons learned" report will be required from mentor-protégé participants, with details outlined in the Federal Register announcement.

Phase 3: features a focus on small businesses located in distressed areas based on Treasury's anticipated participation in the federal HUBZone procurement program on September 30, 2000 (to be incorporated into the programs cited in Phases 1 and 2).

The HUBZone procurement program will be incorporated into the program on September 30, 2000. Phases 1 and 2 will continue.

In Phase 3, Phase 1 procedures will continue with an emphasis placed on 8(a) firms located in HUBZones.

In Phase 3, Phase 1 procedures will continue with an emphasis on protégé firms located in HUBZones.

TREASURY CLEARANCE SHEET

No. _____
Date _____

MEMORANDUM FOR:

- SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY
 ACTION BRIEFING INFORMATION LEGISLATION
 PRESS RELEASE PUBLICATION REGULATION SPEECH
 TESTIMONY OTHER _____

FROM: Nancy Killefer, Asst. Secy for Mgmt. and CFO

THROUGH: _____

SUBJECT: Treasury Procurement Announcements for BusinessLINC Roundtable

REVIEW OFFICES (Check when office clears)

- | | | |
|--|--|---|
| <input type="checkbox"/> Under Secretary for Finance | <input type="checkbox"/> Enforcement | <input type="checkbox"/> Policy Management |
| <input type="checkbox"/> Domestic Finance | <input type="checkbox"/> ATF | <input type="checkbox"/> Scheduling |
| <input type="checkbox"/> Economic Policy | <input type="checkbox"/> Customs | <input type="checkbox"/> Public Affairs/Liaison |
| <input type="checkbox"/> Fiscal | <input type="checkbox"/> FLETC | <input type="checkbox"/> Tax Policy |
| <input type="checkbox"/> FMS | <input type="checkbox"/> Secret Service | <input type="checkbox"/> Treasurer |
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| <input type="checkbox"/> Under Secretary for International Affairs | <input type="checkbox"/> IRS | <input type="checkbox"/> Savings Bonds |
| <input type="checkbox"/> International Affairs | <input type="checkbox"/> Legislative Affairs | |
| | <input type="checkbox"/> Management | <input type="checkbox"/> Other _____ |
| | <input type="checkbox"/> OCC | |

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Lynda de la Vina	LdV JC [Signature]	12/11/98	DAS/Economic Policy	622-2220
Theodore Carter		12/11/98	DAS/Management Operations	622-2400
Michael Barr			DAS/Community Dev. Policy	622-0016
REVIEWERS				
Gary Gensler			Asst. Secy. Financial Markets	622-2044
Ed Knight			General Counsel	622-0287
Michael Froman			Chief of Staff	622-1906
<p>Simultaneous clearance: Please provide clearance/comments by 12:00 noon ASAP, Dec. 11, 1998. Return to Rm. 2434 or call x2-2400 for pick-up.</p>				

Review Officer

Date

Executive Secretary

Date



Dear Mr. Vice President:

At the first White House Business and Entrepreneurial Roundtable on Community Empowerment in June 1998, you called together business executives from across the country to highlight the untapped economic potential of our distressed urban and rural communities. You also announced the Clinton Administration's BusinessLINC initiative -- Learning, Information, Networking and Collaboration -- to encourage large businesses to link with and advise small businesses, particularly in distressed areas. You asked us to carry out this initiative and to report back to you at the next Roundtable on the ways in which the Federal government can "collaborate with the private sector to support such business linkage programs and promote best practices in this area."

Small businesses are critical to job growth and the economic competitiveness of the United States, but too many of these firms, particularly those in economically distressed areas, lack sufficient expertise in critical areas and, in addition, cannot access the networks of information and resources that larger businesses operating outside these areas utilize.

We are pleased to present you with this report. In preparing the report, we brought together a group of chief executives of large and small corporations and held a series of six regional meetings around the country to learn about best practices. We uncovered a wealth of examples that show how private-sector efforts can help our nation's small businesses grow. The report documents how these business-to-business relationships can benefit not only small firms, but also the larger firms providing advice. Larger firms report, for example, that smaller firms can help them to reach new markets, partner with agile companies, build a strong supplier or subcontracting base, and improve the communities in which their businesses are located.

We identify effective strategies businesses seeking these relationships can pursue. By employing these strategies, and using local intermediary organizations to bolster their efforts, corporations can reach an array of firms, including those in economically distressed communities, to their mutual benefit. We encourage businesses to learn from the examples discussed in the report, and to explore ways in which the lessons learned could be applied to their own business practices.

Although the report focuses on how the private sector can expand BusinessLINC's, we also believe that government can play an important role in catalyzing these efforts. The Small Business Administration has several programs in place that would allow small firms the opportunity to benefit from the expertise of larger ones. With the release of this report, SBA and the Treasury Department have both committed to expand our support for private sector BusinessLINC efforts, as discussed in the Executive Summary. We look forward to continuing to work under your leadership on this initiative. We strongly believe that such business-to-business relationships will be of enormous benefits to large and small firms, and to our national economy, in the years and decades ahead.

Robert E. Rubin
Secretary of the Treasury

Aida Alvarez
Administrator, Small Business Administration

BusinessLINC Draft Rubin Quote:

"In today's economy, small businesses need information, access to resources and personal contacts necessary to compete successfully," said Secretary Rubin. "Through BusinessLINC strategies, larger companies can contribute to their own success while supporting the economic growth of smaller businesses, particularly those in economically distressed areas."

Technical advice and assistance,

through

Prepared by H. Barr +
C. Kellogg - cleared
by H. Schloss - cleared by
RER w/cats 12/15/98

DRAFT

THE WHITE HOUSE

Office of the Vice President

For Immediate Release
Wednesday, December 16, 1998

Contact:
(202) 456-7035

**VICE PRESIDENT GORE ANNOUNCES
NEW PUBLIC/PRIVATE PARTNERSHIP TO ENCOURAGE
ENTREPRENEURIAL GROWTH AND DEVELOPMENT
OF "EMERGING MARKETS" IN OUR INNER CITIES**

Washington, D.C. – Vice President Gore announced today new private sector commitments to support BusinessLINC, a new partnership between the Federal Government and America's business community to encourage private sector businesses to work with small business owners and entrepreneurs, especially in the "emerging markets" in America's cities and in distressed areas.

The Vice President made the announcement at a meeting with Treasury Secretary Robert Rubin, Small Business Administration (SBA) Administrator Aida Alvarez, and CEO's from leading American corporations and small businesses. BusinessLINC stands for Learning, Information, Networking, and Collaboration.

"Our economy today is now stronger than it has been in a generation. As a result, businesses all across our nation are being presented with new opportunities to invest in emerging markets right here at home in America," the Vice President said. "BusinessLINC calls upon America's large businesses to forge new partnerships with – and to make a wise investment in – our small businesses and entrepreneurs so that both our large and small businesses will become more competitive in the new economy."

To support the BusinessLINC initiative, the Vice President announced a series of new Federal initiatives:

- **HUBZone Empowerment Contracting Program**
The Vice President announced the implementation of the new HUBZone Empowerment Contracting program. Under this program, up to \$7 billion in new Federal contracts will be targeted to small businesses and distressed areas by the year 2000. In addition, it will widen the pool of potential Government contractors and create an estimated 25,000 new jobs in over 7,000 distressed communities.
- **Department of Treasury and SBA Mentoring Programs**
The Vice President announced that both the Treasury Department and the SBA will create mentor-protégé programs. The Treasury Department program – Success Partnerships – will help increase the participation of small, disadvantaged and women-owned businesses as contractors and sub-contractors by offering technical

advice, financial and management skills, endorsement credibility, and one-on-one advice from large companies. The SBA counterpart will seek to enhance the capabilities of participants in the agency's 8(a) business development program, and to improve their ability to compete and receive federal government contracts. In addition, SBA will expand ACENET (Angel Capital Electronic Network) that helps link minority and women owned businesses with investment capital (corporate sponsors of these businesses are known as "Angels").

• **BusinessLINC Leadership Coalition**

The Vice President announced the formation of a BusinessLINC leadership coalition of experts, comprised of both public and private sector representatives. The coalition will work to expand business-to-business relationships between large and small businesses and will provide businesses with on-line information, resources, and a database of companies with an interest in mentor or protégé programs (www.treas.gov/businessline).

Attending the meeting with the Vice President at the White House were Treasury Secretary Robert Rubin, SBA Administrator Aida Alvarez, and CEO's from McDonald's, Bell Atlantic, BankBoston, Chase Manhattan Bank, GE Capital, Science Applications International, ITC Personnel Services, Trumark Metal Stamping, Lazo Technologies, and Delilah's.

Among the new private sector commitments:

- Bell Atlantic has committed \$1.8 billion, through a partnership with SBA, to increase purchasing and subcontracting with minority and women-owned businesses.
- GE Capital has committed to expand its Small Business Colleges, which offer business advice to entrepreneurs in distressed areas, and to open a fifth college in St. Louis as well as a new pilot program for women business owners in Washington, D.C.
- Science Applications International Corporation (SAIC) will execute joint marketing agreements with small businesses and support relationships with small businesses in the new HUBZone areas

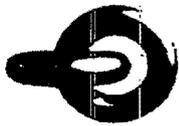
Today's meeting, was the second in a series of White House Business and Entrepreneurial Roundtables that the Vice President has held on different aspects of the role that the private sector can play in cities and distressed communities.

At the first meeting, held on June 5, 1998, the Vice President announced several new private sector commitments to invest in low-income communities by such corporations as Pfizer, Rite Aid, Palunark, and BankBoston. Also at this meeting, the Vice President directed Secretary Rubin and Administrator Alvarez to conduct a series of regional meetings on BusinessLINC and report back to him at the second Roundtable on ways to coordinate efforts to encourage large businesses to work with small businesses, especially in distressed areas.

As chair of the President's Community Empowerment Board, the Vice President

oversees the Administration's Community Empowerment Agenda, which includes a series of initiatives to provide greater opportunity in, and expand the competitiveness of, our distressed urban and rural areas. An important part of the agenda has been to spur the private sector to play a greater role in these areas.

###



BusinessLINC

Learning, Information, Networking and Collaboration

**Business-to-Business Relationships
that Increase the Economic
Competitiveness of Firms**

A Report to Vice President Al Gore

December 1998

**Presented at the
Second White House Business and
Entrepreneurial Roundtable:
New Opportunity, A Stronger Economy**



To PA 12/15/98

PA to NCC

NCC to RER

RER revised letter

NCC incorporated revisions

osie autoapproved

H. Barr original to SBA
for signature

SBA to H. Barr

12/15/98

Please log & file



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 23, 1998

ACTION

MEMORANDUM FOR THE SECRETARY

Through: John D. Hawke, Jr. *JDH*
Undersecretary, Domestic Finance

From: Michael S. Barr *MB*
Deputy Assistant Secretary
Community Development Policy

Clifton G. Kellogg *CK*
Senior Policy Advisor
Community Development Policy

Subject: Status Update on BusinessLINC: Learning, Information, Networking and Collaboration

Summary

Since the June 5 roundtable hosted by the Vice President, SBA Administrator Alvarez and yourself, and at which the BusinessLINC Initiative was announced, we have made significant progress in firming up the workplan for the next few months. This memo provides an update on the regional meetings and on the CEO group that would review the BusinessLINC report. We would welcome any comments or suggestions, and in particular, we request your thoughts on the CEO candidates.

Several Treasury staff are working on this initiative. Cliff Kellogg is quarterbacking the effort. Sarah Fordney handles the CEO work, Lara Muldoon of Economic Policy will provide the key authorship role, and Melissa Schroder (our summer intern) is responsible for the background research and logistics.

If you agree, we will begin to issue invitations, in order of priority, to CEOs from the attached list.

Agree

Disagree

Let's Discuss

We should make sure we have at least a few big company CEOs on final list who accept, provide impact.

Regional Meetings

As we noted in our earlier memo, we are having regional meetings to help gather best practices and to spread the word about mentoring strategies. Each of the regional meetings is being

DEPARTMENT OF THE SECRETARIAT

organized by a different federal agency, though Treasury is providing oversight and continuity for all the sessions. The dates, locations and hosts for each of the meetings are spelled out below:

<u>Date</u>	<u>Event</u>	<u>Location</u>	<u>Organizer</u>	<u>Host/Site</u>
June 5	VP's 1 st Roundtable	White House		
mid-July	Business Liaisons	Washington	Treasury	
July 9	Los Angeles Regional Emphasis: Subcontracting • Automotive • General Contractors • DOD Mentor-Protégé Program		DOD	TRW
July 29	Chicago Regional Emphasis: Peer Groups / Boards of Advisors • Franchising • Distributorships		SBA	Bank of America
August 5	Dallas Regional Emphasis: Technical Assistance • Telecommunications • Existing Mentorship Programs in Dallas Area		Treasury	Dallas City Hall
August 19	Cleveland Regional Emphasis: Classroom training • Financial institutions		SBA	Cuyahoga Comm'y College
Sept 10/14	New York City Regional Emphasis: Role of financial institutions • Software • Fashion & Textiles		SBA	Chase Manhattan?
Sept / Oct	CEO Group VP's 2d Roundtable Issue Final Report	Washington	OVP/Treasury	

Potential CEO Candidates for Working Group

We are seeking your input on the membership of the CEO Group. This group will comment on the draft report and will meet just once at the Vice President's late September / October roundtable. In selecting candidates for the CEO Group, we have sought to balance geographic

representation, large and small companies, minority- and women-owned companies, and a mix of industries. We have divided the top candidates (all of whom have been vetted by the White House) into the following sectors:

1. Financial institutions (2)
2. Consulting companies (1)
3. Manufacturing / Wholesaling (1)
4. Services (1)
5. Small companies (2)
6. Franchising (1)

We would also like to enlist three non-profit sector organizations' involvement, because they have substantive knowledge that would improve the report itself, and because they are key to the post-report work of spreading the lessons learned and encouraging the private sector to adopt these practices. They are:

- Michael Porter, Harvard Business School and Initiative for a Competitive Inner City
- Paul Grogan, Local Initiative Support Corporation
- Tom Donahue, U.S. Chamber of Commerce

In total, this could be as many as 11 people on the CEO group and as reviewers. Many of these candidates are interested in the Initiative, but if we are unsuccessful in recruiting them, we may ultimately reduce the size of the group.

1. Financial Institutions (2)

Gary Wendt

CEO, GE Capital

Background: Mentor

GE Capital runs a Small Business College, providing both academic-style lectures from small business experts and mentoring from senior GE executives. The program specifically targets minority-owned and small businesses. The program runs independently of their small business lending, but many businesses take advantage of both the lending and mentoring programs.

Walter Shipley

Chairman & CEO, Chase Manhattan

Background: Mentor

Chase Manhattan operates several small business assistance programs, some in partnership with local community groups. While many banks offer pre-loan application assistance, Chase has recently begun also offering its borrowers technical assistance after receiving a loan.

David Coulter
Bank of America
Background: Mentor

Serafin Mariel
New York National Bank
Bronx, NY
Background: The bank personnel provide informal mentoring 1-on-1 to small business owners.

2. Consulting Companies (1)

William Stasior
Chairman and CEO, Booz Allen & Hamilton
Background: Mentor
Booz Allen & Hamilton currently serves as a mentor to five protégé companies that were awarded a contract with the Defense Information Systems Agency. The company provides protégé companies with technical assistance, expanded sub-contracting opportunities, access to Booz-Allen resources, long-term strategic relationships and mutually beneficial teaming opportunities.

Stephen J. Rohleder,
Managing Partner, Anderson Consulting
Background: Mentor
Recommended by DOD. Through Rohleder's leadership the firm as participated in DOD's mentor-protégé program since 1995 and as one protégé, Information Control Systems.

3. Manufacturing / Wholesaling (1)

Carlton Guthrie
CEO, Trumark Metal Stamping
Lansing, Michigan
Background: Mentor
Mr. Guthrie is on the board of the Runners Club, and serves on Ford Motor's minority supplier council. Trumark is a \$55 million metal fabrication supplier to automotive companies.

Terry Stinson
CEO, Bell Helicopter
Fort Worth, Texas

Background: Mentor

Bell Helicopter participates in the DOD mentor-protégé program and is considered a superior company in this regard.

Ron W. Haddock

President and CEO, FINA, Inc.

Dallas, TX 75221

Background: Mentor

FINA, Inc. is a \$4.5 billion oil and petroleum company that participates as a mentor in the "Advanced Mentoring Program" of Dallas. FINA mentors P.N.I. Distributions, a small minority owned entrepreneur, by providing financial, administrative, technology and business-strategy support.

Dave Bing

President, Bing Metal Products

Background: ?

Bing is a mid-sized metal fabrication supplier to automotive companies. We are unaware of any mentoring activities in which it may participate.

4. Services (1)

Robert A. Rosenberg

Executive Vice President and General Manager

Science Applications International Corporation (SAIC)

Background: Mentor company.

As a company owned by its 32,000 employees, SAIC places high importance on assisting small and disadvantaged companies. SAIC reserves 40,000 stock options annually for employees with strong performance in assisting small suppliers. SAIC is recognized as a leader in all the federal agency mentor-protégé programs (DOD, Energy, FAA, EPA). SAIC has expressed interest in migrating its best practices from its government divisions (where mentor-protégé was encouraged) to its wholly commercial divisions.

Livia Arnaiz

President and CEO, GEM Technology

Background:

Gem Technology is a woman owned 8(a) engineering firm based in Florida with a mentor based in Louisiana. Gem is mentored by DynMcDermott Petroleum Operations Company.

Sylvester Formey

President and CEO, Vanguard EMI

Background:

Vanguard is an environmental remediation company based in Savannah, Georgia mentored by Westinghouse.

Huu Dinh

President, American Technologies, Inc

Background:

ATI is an 8(a), environmental, energy and technical services company recognized by Knoxville First and Future as one of the 25 fastest growing companies in East Tennessee.

Harry T. Marren

FDC Technologies

Bethesda, Md.

Background:

Recommended by FAA.

Knox W. Tull

Jackson and Tull, Chartered Engineers

Washington, D.C.

Background:

Recommended by NASA and SBA. Mr. Tull has informally mentored several small businesses and business owners. Jackson and Tull also benefitted from various Mentoring relationships with other companies, as well as formal government programs.

Dr. Ramen P. Singh

Dynacs Engineering Company, Inc.

Palm Harbor, Florida

Background:

Recipient of NASA Certificate of Appreciation at the NASA Mentor-Protégé Conference in August 1997.

Fran Folk Marcum

Micro Craft

Background: Protégé and mentor company.

Ms. Marcum was a panelist in NASA's 1997 Mentor-Protégé Conference.

Diane C. Creel

CEO and President, Earth Tech, Inc.

Long Beach CA

Background: Mentor company.

Earth Tech, a global engineering and environmental technology company, works with small and disadvantaged firms to develop contracting opportunities for federal engineering and technology projects. Under Diane Creel's leadership, the firm was awarded the 1997 DoD Nunn-Perry Award. This award recognized Earth Tech for outstanding achievement in its role as a mentor.

5. Small Companies (2)

Diva Garza
President, ITC Personnel Services
Houston, TX

Background: Protégé company.

ITC Personnel Services is a small (34 employees) company that links businesses with temporary and full-time employees in technical and service industries. Ms. Garza's company has been extensively mentored by large corporations such as Exxon, EDS (Electronic Data Systems) and GTE. Last year, ITC Personnel Services grew from \$13 million to \$17 million.

Lydia Gutierrez
President, Casa Hacienda Foods
Detroit, Michigan

Background: Mentor company.

Casa Hacienda Foods produces Tortilla snack foods and is located in the Detroit Empowerment Zone. Her company employs 20 people. Ms. Gutierrez mentors start-up small businesses and has been featured in many national magazines highlighting her small, minority business involvement.

Albert C. Black, Jr.
President and CEO, ON-TARGET Supplies & Logistics
Dallas, TX

Background: Protégé company.

ON-TARGET Supplies & Logistics is a small company that is located in the inner-city of Dallas and employs 52 people. Under the guidance of two large mentor corporations, EDS and Texas Instruments, ON-TARGET Supplies and Logistics expanded from a \$1 million computer paper supplier to a \$15 million distributor of copy and computer-room goods and services.

Tom Lazo, Sr.
President/CEO, LTI
Dallas, TX

Background: Protégé company

LTI, Inc. is a 16 month-old company, mentored by DSC, Inc., a telecommunications corporation. LTI, Inc. -- in a three-party agreement with DSC and GTE -- manufactures "Light Span" a telecommunications product that increases the capacity of data transmissions through office phone lines. LTI is located in Southern Dallas and makes concerted efforts to hire locally.

Wanda Martinez
President and CEO, Dean Ryan Consultants & Designers Inc.
Los Angeles, CA

Background:

Dean Ryan Consultants & Designers is a Los Angeles based, \$3 million architectural/engineering consulting firm that employs 31 people.

Pettis Norman
President, P.N.I. Distributions
Dallas, TX

Background: Protégé and Mentor company.

P.N.I. Distributions is a Dallas based, protégé company supplying whole-sale fuel to freight operators. The company began operations in 1989 and currently employees 95 people. P.N.I. is mentored by FINA, Inc., a \$4.5 billion oil and petroleum company. As a participant in the Dallas Together Forum -- an advisory forum focused on minority economic development issues -- P.N.I. Distributions began mentoring three small companies in January, 1998.

6. Franchising

Jack Greenberg
McDonald's
Oak Brook, IL

Background: Mentor

McDonald's is involved in business assistance programs both for its suppliers and its franchisees. On the supplier front, McDonald's has encouraged its tier one suppliers to provide "internships" for protégé minority executives. This program has lead to the creation of Quality Croutons, Damron Teas and Brooks Sausage. For franchisees, McDonald's pre-training and ongoing support has consistently been given high marks.

TREASURY CLEARANCE SHEET

NO. _____

Date _____

MEMORANDUM FOR: SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY
 ACTION BRIEFING INFORMATION LEGISLATION
 PRESS RELEASE PUBLICATION REGULATION SPEECH
 TESTIMONY OTHER _____

FROM: Michael Barr, DAS - Community Development Policy

THROUGH: John D. Hawke, Jr., Under Secretary for Domestic Policy

SUBJECT: Status Update on BusinessLINC: Learning, Information, Networking and Collaboration

REVIEW OFFICES (Check when office clears)

- | | | |
|--|--|--|
| <input type="checkbox"/> Under Secretary for Finance
<input type="checkbox"/> Domestic Finance
<input type="checkbox"/> Economic Policy
<input type="checkbox"/> Fiscal
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<input type="checkbox"/> Public Debt | <input type="checkbox"/> Enforcement
<input type="checkbox"/> ATF
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<input type="checkbox"/> IRS
<input type="checkbox"/> Legislative Affairs
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<input type="checkbox"/> Scheduling
<input type="checkbox"/> Public Affairs/Liaison
<input type="checkbox"/> Tax Policy
<input type="checkbox"/> Treasurer
<input type="checkbox"/> E & P
<input type="checkbox"/> Mint
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<input type="checkbox"/> Other _____ |
| <input type="checkbox"/> Under Secretary for International Affairs
<input type="checkbox"/> International Affairs | | |

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
Michael Barr			DAS - Community Dev. Policy	2-0016
Clifton Kellogg			Senior Policy Advisor	2-5732
REVIEWERS				
Kenneth Schmalzbach	<i>KS</i>	<i>6/23/98</i>	Assistant General Counsel (Administrative & General Law)	2-0450
Edward S. Knight	<i>ESK</i>	<i>6/23/98</i>	General Counsel	<i>20283</i>
<p><i>* Note edit on p. 2, which Cliff Kellogg has agreed to.</i></p> <p><i>* See edit page 3.</i></p>				

SPECIAL INSTRUCTIONS

PLEASE CLEAR OFF ON THE ATTACHED BY 4:30P.M. TODAY (6/23) AND RETURN TO IRMA TUCKER IN ROOM 2415MT OR CALL 2-0016 FOR PICKUP.

Review Officer _____ Date _____ Executive Secretary _____ Date _____

To NCC 6/24/98

NCC to DI for RER 6/24/98
in Asia

NCC cc HF

PA cc AK 6/25/98

Please log in.

ADMINISTRATION HISTORY APPENDIX
CHAPTER FOUR: INCREASING ECONOMIC
OPPORTUNITY

COMMUNITY
ADJUSTMENT AND
INVESTMENT
PROGRAM
(CAIP)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 26, 2000

INFORMATION

MEMORANDUM FOR: SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT

THROUGH: Gary Gensler *GG*
Under Secretary for Domestic Finance

Lee Sachs *LS*
Assistant Secretary for Financial Markets

FROM: Harry M. Haigood *HMH*
Deputy Assistant Secretary (Government Financial Policy)

SUBJECT: Announcement of CAIP Grant Awards

The purpose of this memorandum is to inform you that the Community Adjustment and Investment Program (CAIP) plans to announce shortly 18 grant awards totaling \$6,000,000 to be made in 10 states: Arizona, California, New Mexico, New York, North Carolina, Oregon, South Carolina, Tennessee, Texas, and Washington (see attached table). We are developing a press release to announce the awards.

BACKGROUND:

The CAIP is a program that provides financial resources to assist in the creation or preservation of private-sector jobs in United States communities that need assistance in adjusting to significant job losses resulting from changes in trade patterns attributable to the North American Free Trade Agreement. In order to better serve these individual communities, the CAIP launched a grant and technical assistance program and expanded the areas eligible for CAIP assistance in March 1999.

On October 15, 1999, the CAIP issued the first solicitation for grant applications for up to \$6,000,000 in total grants to be awarded on a competitive basis for projects and programs that meet eligibility requirements. The solicitation specified that awards would be made in two categories: specific project grants and technical assistance grants. Specific project grants are made to or for a particular project or program designed to assist directly or indirectly in the creation or preservation of jobs in the eligible areas. Technical assistance grants are designed to assist communities in developing specific strategies, projects or programs to create or preserve jobs in the eligible areas. The solicitation also established the rules for submitting grant applications and the rating factors by which the applications would be evaluated.

The CAIP received 136 grant applications from applicants representing 26 states across the country by the due date of January 17, 2000. The CAIP Finance Committee established a Funding Subcommittee composed of career employees with grant expertise from the six agencies represented in the Finance Committee (the Departments of the Treasury, Agriculture, Labor, Commerce, and Housing and Urban Development and the Small Business Administration) to review and evaluate the applications and provide the Finance Committee with a slate of recommended grant awards. On August 1, 2000, the CAIP Finance Committee endorsed 18 grants to awardees located in 10 states.

The endorsed grants include funding for specific job creation and retention projects and programs and for technical assistance. The awardees of this first round of CAIP grants expect to create or retain 4,129 private-sector jobs. The grant funds are expected to leverage approximately \$20 million in other private, public, and in-kind resources. Projects covered include micro-lending and enterprise activities, worker retraining and support of business expansion activities for existing companies.

The NADBank CAIP Grant Program Office located in San Antonio, Texas will monitor the spending of the grant funds to ensure that the recipients complete the agreed upon projects or programs. With the approval of the CAIP Finance Committee, the NADBank CAIP Grant Program Office plans to issue a second solicitation for grant applications in the fall of this year.

Attachment

APPROVED 8/01/00
CAIP PROJECTS

App. #	State	County	Awardee Name	Project Description	CAIP Grant AMT	Expected Jobs to be created or retained	Expected Leveraging of in-kind and other resources
100-P	SC	Georgetown	Five River's Community Development Corporation	Mentor based job-training program. 8 workshops/training sessions over 6 months. Goal to help graduates start their own businesses	\$367,801	150	\$192,600
096-P	AZ	Pima	Pima County Community Services	Support for training workers in health, IT, education, electronics, and accounting. The program offers career development such as language, math, and basic skills.	\$450,000	723	\$162,100
094-P	TX	Brooks, Cameron, Dimmit, Duval, Hidalgo	Rio Grande Valley Empowerment Zone Corp.	Establish regional economic dev. Center to provide education and improvements of workplace skills, support for state and local economic dev. and assist in strategic planning.	\$97,855	200	\$2,108,800
077-P	NY	Cortland	Cortland County Department of Employment and Training Grant Administration	Training program to preserve jobs at 5 manufacturing companies. Offers training in basic skills, computers, mechanical and electrical tech., and manufacturing.	\$450,000	500	\$ 342,044
005-P	TN	Johnson	East Tennessee State University	Micro-enterprise loan program to benefit displaced workers. Provide small business start-up and tech. asst., including classroom training.	\$248,329	108	\$558,150
023-P	TX	Cameron, Hidalgo, Willacy, Starr	Valley Initiative for Development and Advancement	Job training for unemployed/underemployed workers. Offers long-term and short-term training at post-secondary institutions and college prep/pre-job training.	\$450,000	164	\$1,012,000

APPROVED 8/01/00
CAIP PROJECTS

App. #	State	County	Awardee Name	Project Description	CAIP Grant AMT	Expected Jobs to be created or retained	Expected Leveraging of in-kind and other resources
119-P	TN	McMinn	City of Etowah, Tennessee	Natural gas and water booster to locate large manufacturing co. in the area.	\$450,000	500	\$4,130,000
029-P	TX	El Paso	The Banana Tree	Start-up plastic molding training/production business. Workers will be trained on equipment in recipient's business and in other businesses in the area.	\$450,000	150	\$250,000
048-TA	TX	Southwest Border Region	The University of Texas-Pan American	Tech. asst, including counseling, to workers to start their own business. Funds used to prepare training materials, videotape courses, and circulate tapes.	\$250,000	1,000	\$4,129,000
053-P	NC	Halifax	Halifax Development Commission	Construct wastewater pretreatment facility, upgrade wastewater collection lines, and install sewer pump station to support a food processing plant.	\$450,000	320	\$1,978,000
007-TA	CA	San Diego	City of San Diego, Economic Development Division	Provide operating support for established revolving \$2.4 million loan fund. Used to perform due diligence and provide tech. asst.	\$250,000	162	\$1,350,000

APPROVED 8/01/00
CAIP PROJECTS

App #	State	County	Awardee Name	Project Description	CAIP Grant AMT	Expected Jobs to be created or retained	Expected Leveraging of in-kind and other resources
030-TA	OR	Linn	Linn County Business Development Center	Pay for admin. Costs and business planning to support an existing loan fund. Provide technical asst. to those who desire to establish businesses.	\$60,000	20	\$578,647
086-TA	NM	Dona Ana	Community Action Council of Southern New Mexico, Inc.	Offers skilled textile arts instruction to women so that they may form home/neighborhood based businesses. Women will sew art on clothing and develop artistic designs.	\$250,000	70	\$537,792
073-P	TX	El Paso	Project A.R.R.I.B.A.	Provide long-term training in high tech, skilled jobs, vocational counseling, and support. Two tiers: 1) post-secondary training for up to 2 yrs. For healthcare or office tech.; 2) certification at a one yr. Program or associates degrees.	\$450,000	60	\$ 1,302,500
035-P	NC	Cherokee	NC REAL Enterprises	To increase the # of trained facilitators and counselors, design courses, improve resource center, and create funds to pay for profess. services, e.g. legal and accounting.	\$201,624	100	\$356,604
124-P	TX	Cameron	Harlingen Community Development Corporation	Recruit displaced workers, give them stipends for classes, provide employment and post-secondary ed. Workers receive financial aid while they attend construction training at housing projects.	\$450,000	80	\$440,000
017-P	WA	Franklin	City of Pasco	To purchase and upgrade a building for business incubator for commercial kitchen and specialty food industry. Will have 4 kitchen spaces for local food producers.	\$225,000	200	\$290,000
App #	State	County	Awardee Name	Project Description	CAIP Grant AMT	Expected Jobs to be created or retained	Expected Leveraging of in-kind and other resources
117-P	SC	Williamsburg	Williamsburg Technical College	Training program in machine tooling for displaced apparel workers. Funds will be used for recruitment.	\$449,391	45	\$157,888

**APPROVED 8/01/00
CAIP PROJECTS**

				instruction, training stipends, apprenticeships, and continuing ed.			
					\$6,000,000	4,552	\$19,876,125

New Mexico Border Authority Pilot Project and Totals with NM Project

App #	State	County	Awardee Name	Project Description	CAIP Grant AMT	Expected Jobs to be created or retained	Expected Leveraging of in-kind and other resources
NA/ Pilot Project	NM	Dona Ana	New Mexico Border Authority	To train workers through a market driven approach to meet the private sector demands for a trained workforce. Workers that complete the training will have an opportunity for employment through the manufacturer's alliance	\$600,000	800	In Kind leveraging from Dona Ana Branch Community College through classroom space, Manufacturer's leveraging of facilities and salary contribution while training. \$159,072
					\$6,600,000	5,352	\$20,035,197

1999-se-004407

The Deputy Secretary of the Treasury

99-4407

August 3, 1999

NOTE FOR LEE SACHS

Deputy Assistant Secretary for
Government Financial Policy

FROM: STUART E. EIZENSTAT *M*

SUBJECT: CAIP Memo

I would very much like to meet on the CAIP and to try to push it forward. Let's meet ASAP. I agree it can help sustain support for a free trade agenda.

Attachment

cc: Holly Toy Moore
Karen Kornbluh
Carolyn Keene

Room 3326

622-1080

The Deputy Secretary of the Treasury

August 3, 1999

NOTE FOR LEE SACHS

Deputy Assistant Secretary for
Government Financial Policy

FROM: STUART E. EIZENSTAT *M*

SUBJECT: CAIP Memo

I would very much like to meet on the CAIP and to try to push it forward. Let's meet ASAP. I agree it can help sustain support for a free trade agenda.

Attachment

cc: Holly Toye Moore
Karen Kornbluh
Carolyn Keene

Room 3326

622-1080



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 26, 1999

**MEMORANDUM FOR SECRETARY RUBIN
DEPUTY SECRETARY SUMMERS**

THROUGH: Gary Gensler
Assistant Secretary
Financial Markets

FROM: Lee Sachs *LSmg*
Deputy Assistant Secretary
Government Financial Policy

SUBJECT: Expansion of the Community Adjustment and Investment
Program (CAIP)

*For Lee Sachs
to see
I think
his idea of
institutionalizing
response to trade
dislocation is a good
very good idea
substantively, but may
be impossible
practically and politically
(though may not).*

This memorandum addresses the question of whether to expand the mission of the Community Adjustment and Investment Program (the "CAIP") beyond its original mandate. To build support for our international trade agenda, we have explored the possibility of expanding the CAIP beyond the NAFTA-affected communities to other areas experiencing significant trade-related job dislocations. Expanding the CAIP to address temporary trade-related job dislocations beyond those related to NAFTA would provide a proactive domestic response to a number of the issues raised by opponents of free trade. A successful program ameliorating some of the short-term negative domestic effects resulting from rising imports could help to stem protectionism and increase support for the Administration's open trade policies. While we have concluded that there is a need for some entity to play a role as coordinator and catalyst to respond to trade-related distress (in much the same way FEMA responds to natural disasters), it will require further examination to determine whether an expanded CAIP is the vehicle best-suited for this purpose. In this memorandum we will:

- (1) examine the lessons learned from our experience with the CAIP to date;
- (2) discuss the key components we would recommend for a more comprehensive program to address trade related distress;
- (3) discuss the potential benefits and challenges of creating such a comprehensive program; and
- (4) explore whether an expanded CAIP is the appropriate entity to play such a role.

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NOC
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this
NAD Base
would not
be the
right vehicle.*

Background

As NAFTA approaches its five year anniversary, its impact on the US labor market appears to be, on balance, positive.¹ Despite an overall positive effect, however, certain communities have experienced distress due to NAFTA-related job dislocations. The CAIP has helped to minimize such distress by providing direct loans and facilitating loans to NAFTA affected communities through existing USDA and SBA loan programs. To date, the CAIP has facilitated 194 loans in the principal amount of \$147 million, creating or retaining 5,214 jobs. By working with the CAIP director, the NAD Bank's San Antonio office, interested Congressional members and their staffs and other interested constituents, we have identified a number of additional needs in such communities.

We are currently diversifying the CAIP program to attempt to address such needs by both expanding the direct loan program and introducing a technical assistance and grant program. Under the current CAIP program, recent direct loans include a financing package developed in conjunction with USDA for a shoe manufacturer, which saved 200 jobs and an upcoming project in El Paso to attempt to aid workers affected by the recent Levi's plant closings. To launch our technical assistance and grant program, the CAIP will provide seed funding for an urgently needed job training program in Dona Ana, New Mexico. As part of this project, the CAIP also is coordinating a variety of other public and private resources to create an expanded training program and a permanent region-wide training facility for the displaced workers in this region.

We believe an expanded CAIP could play a similar role on a broader scale by serving as the catalyst for immediate action and the coordinator of resources in response to other trade-related "emergencies".

Lessons from the CAIP

Whether the CAIP is expanded to serve as an effective catalyst and coordinator, or this function is housed in an alternative entity, three primary lessons from our CAIP experiences should guide future efforts:

- (1) Federal funding from a variety of sources requires better coordination on a community level
 - (2) Communities often require technical assistance and grants in addition to loans
 - (3) Infrastructure is a vital component of a successful assistance program
- (1) *Federal funding from a variety of sources requires coordination on a community level:*

Our work with the CAIP has revealed that a number of federal agencies have programs that could potentially benefit trade affected communities. Unfortunately, there is no

¹ Study on the Operation and Effect of the North American Free Trade Agreement, USTR. For further explanation of the effects of NAFTA on specific manufacturing sectors, see Memorandum to the Secretary from Deputy Assistant Secretary DeLaVina dated February 3, 1999.

coordination among these programs. Any specific community or business may be aware of one or more of the programs, but is unlikely to have the knowledge to determine which of the myriad programs best meets its needs. On the government side, each program is operating independently with little coordination to ensure the most efficient use of public resources.

(2) *Communities often require technical assistance and grants in addition to loans:*

Many of the businesses and communities that experience trade-related job dislocation lack the resources to take the preliminary steps necessary to propose a project that will create or retain jobs. Even those businesses that develop a viable project proposal may lack awareness of funding availability and/or the skills and resources to prepare a successful application. These businesses and communities need technical assistance to enable them to identify job creation opportunities and assist them in devising project proposals that will be eligible for both public and private funding.

(3) *Infrastructure is a vital component of a successful assistance program:*

One of the challenges faced by the CAIP has been its size. Because it is too small to develop an independent infrastructure, the CAIP has had to identify partners with established networks for evaluating loan applications and grant proposals and administering its funding. The ability to create or access nationwide infrastructures is vital to the success of any program that seeks to aid trade affected communities.

Keys to expansion

Based upon the lessons discussed above, we would propose the following key components of a more broad-based trade assistance program:

- Focus the program on providing emergency assistance to communities in distress by coordinating the resources available from a variety of sources (e.g. mobilize interagency resources to respond to trade related distress similar to the way that FEMA coordinates natural disaster responses).²
- Ensure the availability of a variety of types of funding – including grants, technical assistance and loans – to address the array of needs faced by trade affected communities; and
- Ensure adequate funding to develop a sufficient infrastructure for provision of the services that the expanded program promises;

Benefits and potential challenges of a broad-based trade dislocation response

Our work with the CAIP has illustrated the need for one entity to coordinate the government's resources and provide a rapid response to trade-related emergencies.

² A similar coordination effort limited to the border region currently is under discussion through an NEC process led by Economic Policy as part of the Borderplex Cooperation Initiative and the Borderplex Information Network.

whether through an expanded CAIP or in an entirely new forum. Benefits of creating a comprehensive program to respond to trade-related distress include:

- Creating a mechanism for rapid response to trade "emergencies" that currently does not exist. As demonstrated by the CAIP's recent work in Dona Ana, a staff dedicated to identifying and reacting to trade emergencies could respond quickly and comprehensively.
- Bolstering support for open trade policies by proposing an effective, easily identifiable rapid response to temporary distress that might result from such policies.
- Providing a flexible multi-agency coordinator to develop appropriate long and short-term solutions that most effectively meet community needs and efficiently use government resources.

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Although such an entity would serve an important purpose, it would involve significant challenges as well, including:

- Significant cost to assemble appropriate staff and develop national infrastructure (although this would most likely be less costly than some of the more protectionist proposals currently under consideration).
- Legislation to either change the CAIP or create a new entity.
- Administrative challenges in coordinating funding from a variety of programs and convincing many agencies to spend funding according to broader plan.

By
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CAIP Expansion vs. Alternate Entity

Whether or not the CAIP is the appropriate forum for a FEMA-like trade response vehicle is a separate question. Arguably, the CAIP itself would benefit from the expansion because it would become more relevant to the current "post-NAFTA" economic environment by broadening its focus. Additionally, the current structure of the CAIP, with its multi-agency Finance Committee, does encourage multi-agency participation and cooperation. Finally, since Treasury serves as the Chair of the CAIP Finance Committee, we would likely play a leadership role in an expanded CAIP. This may be a benefit because we would then have the ability to ensure the effectiveness of the program and its ongoing relevance to the trade debate.

On balance, however, unless Treasury wants to play a leadership role in coordinating such a trade response effort, the CAIP may not be the most effective vehicle to provide such assistance. Despite recent significant progress, the CAIP historically has encountered difficulties in fulfilling its more limited NAFTA related mission. This may create some negative affiliations in the minds of some constituencies. More substantively, the CAIP's current structure may be ill-suited to expansion. The CAIP was created in conjunction with NAFTA and is closely linked to the NAD Bank, a joint Mexico-US effort that is similarly limited to addressing NAFTA-related issues. This affiliation would have to be reexamined were the mission of the CAIP to expand. Additionally, the CAIP currently has only two employees, limited outreach capabilities and no nationwide infrastructure. Finally, Treasury may not be the most effective chair of an entity that is likely to require a nationwide credit infrastructure and a field staff of service providers. This function might

agreed

agreed

be more appropriately served by another agency that already has involvement, experience, and some sort of established infrastructure in these areas.

Next Steps

Before proceeding with a CAIP expansion or the creation of a new entity to address trade emergencies, we would need to address a number of important issues. Specifically, we would:

- **Further assess needs and objectives:** An analysis of need would help clarify the objectives of an expanded community adjustment program, including whether the program would focus on community adjustment, provide transitional training assistance, operate as a coordinating mechanism for other agencies, or serve some combination of these functions.
- **Evaluate potential benefits and beneficiaries:** We would analyze whether the program would have political benefits as a pro-active response to temporary trade-related dislocations, particularly in those areas or segments of society bearing the short-term costs of trade liberalization. We would also explore the potential savings of government resources from improved coordination, and examine the unmet needs of trade-affected communities that a rapid response, comprehensive program might better address.
- **Estimate the likely demand for such a program:** This analysis should be fairly detailed regarding likely budgetary impacts, the relationship of this program with other adjustment programs, and the design of eligibility criteria, which would largely define the budgetary impacts.
- **Develop options for CAIP expansion and/or creation of a new entity:** The design and cost of either program would vary a great deal, depending on its objectives. Expanding the CAIP would require a reworking of its mission and current structure. Both options create a need for infrastructure development. We would assess and compare the costs of the two options, including their comparative benefits and disadvantages.

Despite the challenges an expanded CAIP or other trade response entity presents, we believe it is worth taking these additional exploratory steps because of the potential to better address concerns arising out of trade dislocation. We would like to continue working with Economic Policy and the Department of Labor and begin working with OASIA, the NEC and other appropriate agencies to take the steps outlined above. Our goal would be to better understand existing trade assistance programs, assess the additional commitment of resources an expanded CAIP or alternate trade assistance entity would require, and begin to develop a more specific proposal for your approval.



The Secretary of the Treasury

April 29, 1999

NOTE FOR LEE SACHS

FROM: BOB RUBIN

I think this idea of institutionalizing response to trade dislocation is a very good idea. Substantively, but may be impossible practically and politically (though may not).

Dorothy Robyn at NEC had has experience with this in NEC context. I agree that NAD Bank wouldn't be the right vehicle.

Page 3 – Benefits and potential challenges of a ...

Right.

Page 4 – Second bullet Point

This is right in substance, politically it doesn't seem to help.

Fourth Bullet Point

By almost infinite multiples.

Last Paragraph

Agreed. Agreed

Attachment



12762

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

December 1, 1997

SECRETARY OF THE TREASURY

INFORMATION**MEMORANDUM FOR THE PRESIDENT**

FROM: Robert E. Rubin *RE*

SUBJECT: El Paso, South Texas and the NADBank Community Adjustment and Investment Program (CAIP)

DATE: November 24, 1997

On November 20 and 21, 1997, Treasury coordinated two days of events that highlighted the Administration's trade adjustment efforts. The first was a series of site visits and discussions with Congressman Rubén Hinojosa (D-TX), SBA officials and business and community leaders in Hidalgo County, Texas. In the context of discussing his support for Fast Track, Congressman Hinojosa also informed Chamber of Commerce members that you would be visiting the District within the next few months, and that there would be visits from Secretaries Herman and Slater, as well as Veterans Affairs. The second was a day-long public meeting of the Presidential Advisory Committee for the U.S. Community Adjustment and Investment Program (CAIP). To maximize impact of the second event, Treasury worked with Congressman Silvestre Reyes (D-TX) and Mayor Carlos Ramirez to include community and business leaders. Treasury also coordinated the participation of other Federal agencies focusing on trade adjustment issues in El Paso and nationwide, such as Labor, Commerce, Agriculture and the Small Business Administration. We believe that this public session was the first for senior Administration officials collectively representing a number of the core agencies addressing trade adjustment issues, which together with Secretary Herman's recent visit to El Paso, demonstrated a proactive commitment to address these issues.

Both days in South and West Texas were productive. The sessions were received positively by attendees and participants, and publicized in these communities the important work being done by the Administration. It also demonstrated our concern and commitment. At the same time, Federal officials learned first-hand about the economic problems of these areas, while providing Federal, state and local officials with some suggestions for future partnership arrangements. We believe that the business community and public are encouraged by the CAIP. They, and Congressman Esteban Torres' (D-CA) Chief of Staff, also expressed support for the proposed additional \$37 million for expanding the activities of the program to provide technical assistance, micro-lending and grants.

We will follow-up these sessions with other Administration officials to ensure that the program works as designed. We are also considering arranging additional public sessions in other trade affected communities.

Attachment

Federal Representatives:

- Mozelle W. Thompson, Principal Deputy Assistant Secretary, **Treasury**
- Peter Necheles, Senior Advisor, **Treasury**

- John Gray, Associate Deputy Administrator, **Small Business Administration**
- Jeanne Sclater, Deputy Associate Deputy Administrator, **Small Business Administration**
- Carlos Mendoza, Regional Director, **Small Business Administration**

- Arthur Campbell, Deputy Under Secretary, **Agriculture**
- Steve Levy, Supervisory Program Analyst, **Agriculture**

- Phil Singerman, Assistant Secretary, **Commerce**
- Pedro Garza, Regional Administrator, **Commerce**
- Len Smith, Regional Administrator, **Commerce**

- Irasema Garza, Secretary, National Administrative Office, **Labor**
- John M. Robinson, Deputy Assistant Secretary, Employment and Training Administration, **Labor**
- Joe Juarez, Regional Administrator, Employment and Training Administration, **Labor**

*NCC to ZER
ZER signed
NCC to LS (reading)
NCC cc to RTF
SS
12/1/97
Alan K to W.H.
Please log in (may
already be logged)*

Panel Lists:

1. Community & Labor Panel

Acción El Paso

Carmen Contreras
Executive Director
Acción El Paso
Montwood National Bank
7744 North Loop
El Paso, TX 79915
(915) 779-3727 FAX (915) 779-3966

La Mujer Obrera

Cindy Arnold
La Mujer Obrera
2120 Texas Avenue
El Paso, TX 79901
(915) 533-9710 FAX (915) 544-3730

EP Central Labor Union

[Name will be provided]
Vice President
7924 Gateway East, Suite 204
El Paso, TX 79915
(915) 594-8691 FAX (915) 594-8694

Willie Valazquez Intitute

Ricardo Castañon *{invited}*
Assistant, New Economic Strategies
1712 West Beverly Blvd., Suite 201
Montebello, CA 90640
(213) 728-5613 FAX (213) 728-1020

2. **Business Panel**

El Paso Chamber of Commerce

Wes Jurey
President and CEO
El Paso Chamber of Commerce
10 Civic Center Plaza
El Paso, TX 79901
(915) 534-0537 FAX (915) 577-9916

Lending Institutions

Gerardo (Jerry) Romero
Vice President and CRA Officer
Norwest Bank El Paso, NA
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(915) 546-4216 FAX (915) 546-4254

South El Paso Redevelopment & Revitalization Association

Tarney Berg
Executive Director
South El Paso Redevelopment &
Revitalization Association
507509 South Oregon St.
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Levi Strauss Foundation

Annette Morales
Community Affairs Manager, Western District
Levi Strauss Foundation
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3. Academic Panel

El Paso Community College

**Dr. Adriana Barrera
President
El Paso Community College
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El Paso, TX 79915
(915) 594-2112 FAX (915) 594-5024**

University of Texas at El Paso

**Dr. Tim Roth
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**Dr. Dennis Soden
School of Public Policy
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4. **Local and State Government Panel**

Mayor's office

John Edmonson
Consultant to Mayor Carlos Ramirez
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State Senate

State Sen. Eliot Shapleigh *{invited}*
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El Paso, TX 79902
(915) 544-1990 FAX (915) 544-1998

State House

State Rep. Norma Chavez *{invited}*
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El Paso, TX 79905
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5. **CAIP Panel**

NADBank

Hugh Loftus
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North American Development Bank
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Small Business Administration

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Carlos Mendoza
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6. Other Federal Efforts (Commerce & Labor)

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ADMINISTRATION HISTORY APPENDIX
CHAPTER FOUR: INCREASING ECONOMIC
OPPORTUNITY

COMMUNITY
DEVELOPMENT
FINANCIAL
INSTITUTIONS
FUND (CDFI)

1998-SE-002251



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

February 19, 1998

MEMORANDUM FOR SECRETARY RUBIN

THROUGH: John D. Hawke, Jr./s/
Under Secretary
(Domestic Finance)

Linda Robertson /s/
Assistant Secretary
(Legislative Affairs and Public Liaison)

FROM: Jaime E. Lizarraga
Deputy to the Assistant Secretary

Sarah Fordney
Director
Business and Public Liaison

SUBJECT: Legislative and Public Outreach Strategies for Reauthorization of the Community Development Financial Institutions Fund (CDFI) in the second session of the 105th Congress

DISCUSSION:

As set out in the enacting statute (the Riegle Community Development and Regulatory Improvement Act of 1994), program authority for the CDFI Fund lapses at the end of FY '98. The House Banking Committee plans hearings on CDFI reauthorization either in late-March or early-April, depending on when they receive the Administration's legislative proposal. A draft of the legislation has been prepared by the General Counsel's office and open policy and legal issues will be resolved as quickly as possible. The House and Senate VA-HUD Appropriations Subcommittees also plan hearings on March 5 and March 12, respectively, on the Administration's FY '99 budget request of \$125 million.

A basic problem for upcoming hearings is the minimal understanding by Members and Hill staff of the program and limited knowledge of the changes implemented by the Fund in the last year to address concerns raised by Rep. Bachus and others. In fact, congressional staffers' descriptions of the program tend to reflect misperceptions gleaned from press accounts of events that occurred last year. CDFI also competes for scarce resources with other programs in the VA-HUD appropriations account, such as HUD's community empowerment fund, which is being aggressively pushed by Sec. Cuomo. Misperceptions about the nature of the CDFI Fund and

concerns that it duplicates existing HUD programs may be used to argue against reauthorization and full funding.

To address these challenges, this memorandum discusses

- prospects for CDFI reauthorization in the current political climate,
- a legislative strategy for your and other Treasury officials' involvement in the reauthorization and appropriations process, and
- a public outreach strategy for your involvement, and that of other Treasury officials, in informing outside constituencies of management and other changes to strengthen the Fund's operations.

1. REAUTHORIZATION AND APPROPRIATIONS

Background

During 1997, the CDFI Fund was subject to much congressional scrutiny, primarily from Rep. Spencer Bachus, Chairman of the House Banking Subcommittee on Oversight and Investigations. The issues associated with Rep. Bachus' investigation, and a series of upcoming oversight reports will play a significant role in the CDFI reauthorization debate. From all indications, Treasury's efforts to address these issues will be significant factors in the reauthorization debate. According to staff sources, there is a possibility of additional criticisms from Rep. Bachus based on interviews his staff recently held with disgruntled former CDFI officials.

The Administration's FY '99 request for CDFI is \$125 million. During last year's House floor debate over FY '98 Appropriations, Reps. Bachus, Miller, and Foley sought to freeze CDFI funding at its FY '97 level of \$50 million, primarily as a reaction to the Bachus investigation. An agreement was reached between these Members and VA-HUD Appropriations Subcommittee Chairman Jerry Lewis (R-CA) which conditioned full funding on Treasury's actions to address concerns regarding the program's mismanagement and excessive payments to contractors. While the House approved the Administration's request, Senator Bond's version of the bill eliminated funding for the program. With the support of Reps. Lewis and Stokes, the Conferees eventually agreed to fund the program at \$80 million for FY '98, and added report language limiting payments to expert consultants.

Use of Contractors

Shortly before the House vote on the VA-HUD Conference Report last summer, Chairman Lewis promised Rep. Bachus on the House floor that he would join him in requesting that the CDFI Fund limit the amount of payments to all contractors. To meet this commitment, Chairman Lewis and Ranking Member Stokes wrote to you last October requesting a plan outlining the Fund's needs for consultant services, the method by which these services will be procured, and CDFI's efforts to control costs. Under Secretary Hawke responded on your behalf. The letter expresses

the Department's commitment to reducing the Fund's heavy reliance on contractors for basic program functions, while acknowledging that the seasonal nature of the Fund's awarding process makes it important to find the appropriate mix of contractor and employee support. (See attached letter.)

Further congressional criticism of the program will likely focus on the use of contractors, particularly the use of the 8(a) minority business set-aside program (a procurement program administered by the SBA which promotes contracting with minority-owned firms and has many congressional critics). CDFI hired application reviewers through the 8(a) program primarily because it is an efficient method of hiring contractors for short-term services. An additional feature of the 8(a) program is that there are no restrictions on the rates that you can pay individuals hired through the program. In previous correspondence to you, Rep. Bachus criticized the Fund for the high rates paid to contractors hired under the 8(a) program -- which greatly exceeded standard government salaries. In a House floor statement, Rep. Bachus cited the example of a contractor who was paid \$215,000 in the space of 15 months for management consulting services. As a result, congressional criticisms of these past practices of the Fund are likely to continue. Further, Rep. Bachus has alleged in press releases that the former Director and Deputy Director promoted cronyism by bringing in contractors with whom they had prior business and personal relationships.

Chairman Lewis' staff raised questions about the progress made in addressing many of the issues raised by the Bachus investigation. To avoid a protracted House floor battle similar to last summer's, Chairman Lewis' staff has indicated that he would like to ensure that Rep. Bachus' concerns are addressed before the VA-HUD Appropriations bill reaches the House floor.

Reports

Over the next couple of months, we expect several reports to be issued that may contain conclusions critical of the Fund. The reports include:

- *House Banking Oversight Subcommittee Report.* Rep. Bachus' staff is putting together a report critical of the Fund that will include impressions gathered from interviews with former staff of the Fund. Minority staff will have the opportunity to attach their views. However, the limited staff resources of the House Banking Committee Minority may lead them to request the Administration's views with an endorsement letter attached. The timing on the release of the report is uncertain, but we expect it to be within one month.
- *KPMG Financial Audit.* An upcoming financial audit conducted by KPMG will be incorporated into the CDFI Annual Report. The audit report should be final the last week of February. An unqualified audit opinion, which the CFO expects to receive, will give significant credibility to the Fund as we educate Members and their staff about positive changes in the program.

- *Inspector General Report.* This report will include, like the Bachus report, information on contractor-related issues. The report is expected within one month.
- *GAO Report.* This report is statutorily mandated and will focus on the performance of the Fund -- specifically the speed of disbursements and the effectiveness of the performance measures the Fund uses for awardees. GAO is likely to provide constructive criticisms of the way in which the Fund performed both of these functions. The report is expected to be released in early-May. Senate Banking Committee staff indicated that GAO would be asked to testify at a reauthorization hearing, if one is held.

Carryover Balance

CDFI currently has a carryover balance from FY '97 of \$35 million and expects to carry over \$25 million from FY '98 to FY '99. The estimated carryover from FY '99 to FY 2000 is \$56 million. House appropriators raised concerns over these actual and projected unobligated balances, arguing that it is difficult to justify an increase in appropriations when the Fund is unable to manage and obligate funds it has already received. In meetings with appropriations staff, we discussed the fact that the Fund receives two-year appropriations, and plans its programs and activities over two-year periods. In addition, we explained that the Fund takes two years to conduct a funding round and to disburse awards. For these reasons, the carryover amounts are eventually spent and do not lapse. While the staff seemed to understand and accept the reasons for the carryover, this issue could pose a challenge in securing the Administration's request of \$125 million.

Additional Issues Raised By Senate Staff

Meetings with Senate staff over the last few weeks have served to reaffirm the need to educate key Senators (particularly Sens. Bond and Mikulski) of Treasury's efforts to institute sound management practices, as well as to demonstrate the positive impact the Fund has had on communities. *The education campaign is critical in the next few weeks.* The following are some issues raised in the meetings:

- a belief that the program was oversold to Members during last year's appropriations hearings. Staff contend that Kirsten Moy's testimony that the program was achieving impressive results was misleading, given that only one CDFI program disbursement had been made at the time of her testimony.
- staff contend that the elimination of funding by the Senate last year was due, in large part, to the questionable practices of the former Director and the former Deputy Director.
- reservations were expressed about the concept of CDFI. One staffer stated that the creation of financial institutions limited to community development works against the concept of "mainstreaming" commercial banks into low-income areas.
- the belief that there is no evidence of the program's impact, and there are dangers to overfunding a program with no proven track record.

In our meetings with Members and staff, we have introduced CDFI's new management team, outlined the changes implemented at the Fund to strengthen internal controls and accountability, notified them of the upcoming issuance of a notice for the third round of CDFI and BEA awards, and provided specific examples of the program's benefits to communities and individuals.

Recommendations

- We recommend pursuing a dual strategy seeking to pass a reauthorization bill in the House, where CDFI has many supporters and a better chance of passage, while simultaneously working with the Appropriations Committees to secure full funding for the Administration's budget request. The advantage of pursuing reauthorization is that hearings on the House Banking Committee allows CDFI to dispel Members' misconceptions of the program and to inform them of the many improvements in the Fund's management and operations. The disadvantage is that certain Members on the House Banking Committee Majority may seek to thwart a program favored by the Administration.
- A CDFI hearing on the House VA-HUD Appropriations Subcommittee is scheduled for March 5th. According to an Appropriations Democratic staffer, your appearance at last year's CDFI Appropriations hearing in the House generated a "reservoir of good will" towards the program. We have scheduled your appearance at the March 5th House VA-HUD Appropriations hearing to give a brief opening statement and to introduce Director Lazar.
- We recommend that you call Reps. Vento and Roukema and seek their active support for CDFI reauthorization once Treasury has submitted proposed legislative language. Rep. Vento may agree to sponsor the Administration's bill and we are seeking support from Rep. Roukema to be a cosponsor. Roukema and Vento are Chair and Ranking Member of the House Banking Financial Institutions Subcommittee, which has jurisdiction for CDFI reauthorization.
- We recommend that Department officials make telephone calls to Members of the House Banking Subcommittee on Financial Institutions to gain cosponsors for the Administration's CDFI reauthorization bill.
- Week of March 2: we recommend that you telephone Sens. D'Amato and Sarbanes on importance of reauthorizing CDFI prior to Under Secretary Hawke's scheduled meeting with Sen. Sarbanes on Mar. 4 and prior to his meeting (date pending) with Sen. D'Amato. Prospects on the Senate side are not as clear. One-third of the Senators on the Committee, including Chairman D'Amato, are up for reelection and, according to Senate staffers, the Committee's legislative activity will likely be kept to a minimum.
- We recommend that you call Members on authorizing and appropriations Committees at the time of bill mark-ups.
- We recommend that you appear before the Congressional Black Caucus and the Congressional Hispanic Caucus to discuss CDFI. Rep. Maxine Waters, Chair of the Black Caucus, is a strong voice on CRA and on increasing investment in distressed communities.

Additional Legislative Outreach

Under Secretary Hawke and Director Lazar have conducted, and will continue to conduct, a series of briefings on Capitol Hill with the goal of informing Members and staff of CDFI's authorizing and appropriations Committees on recent improvements to the operation and management of the Fund. The following activities have been completed or are pending:

House Reauthorization

- Under Secretary Hawke and Director Lazar: briefed Rep. John LaFalce, Feb. 11.
- Director Lazar and Legislative Affairs: completed briefings of staff for Rep. LaFalce and Rep. Gonzalez on upcoming House Banking Committee reauthorization (week of Feb. 2nd).
- Under Secretary Hawke and Director Lazar: met with Rep. Vento, Feb. 12.
- Under Secretary Hawke and Director Lazar: scheduled to meet with Rep. Roukema, Feb. 25.
- Under Secretary Hawke and Director Lazar: briefings for Members of the House Banking Financial Institutions Subcommittee (dates pending).

Senate Reauthorization

- Legislative Affairs and Director Lazar: briefed staff for Sens. D'Amato and Sarbanes on CDFI reauthorization.
- Under Secretary Hawke and Director Lazar: meetings with Sen. Sarbanes, Ranking Member on the Senate Banking Committee, pending for March 4 as follow-up to your telephone call. We are also working to schedule a meeting with Sen. D'Amato.
- Under Secretary Hawke and Director Lazar: meetings with remaining Senators on Banking Committee, pending for week of March 9th.

House Appropriations

- Under Secretary Hawke and Director Lazar: meetings with Chairman Lewis (scheduled for Feb. 23) and Ranking Member Stokes (Feb. 23).
- Director Lazar and Legislative Affairs: briefed Chairman Lewis' and Ranking Member Stokes' staff on VA-HUD Subcommittee on FY '99 budget request.

- Under Secretary Hawke and Director Lazar: meetings with Members of the VA-HUD Subcommittee (dates pending).

Senate Appropriations

- Under Secretary Hawke and Director Lazar: meetings with Sens. Bond and Mikulski, Chairman and Ranking Member of the VA-HUD Appropriations Subcommittee (pending).
- Director Lazar and Legislative Affairs: completed briefings (week of Feb. 2nd) with staff for Sen. Bond and Sen. Mikulski on VA-HUD Subcommittee on Administration's FY '99 budget request.
- Under Secretary Hawke and Director Lazar: week of March 9, follow-up meetings with VA-HUD Subcommittee Members.

2. CDFI CONSTITUENCY OUTREACH

We are in the process of organizing an intensive campaign to educate our key constituency groups.

Background Materials

To provide the basis for educating relevant parties on the Hill, in the press and in key constituency groups, we will develop over the next week a number of written materials, including the following:

- Fact Sheets on CDFI
- Key Criticisms of CDFI and changes made to address them
- Paper on new team at CDFI
- Success stories
- Positive news articles

Outreach

We are in the process of setting up two briefings -- to be hosted by Under Secretary Hawke -- during the last week of February with (1) Community Based Organizations (CBOs), and (2) Washington representatives of large banks. The last briefing would not only include representatives from major banks but also the major trade organizations such as the American Bankers Association and the Consumer Bankers Associations. These groups have their own community development departments with an understanding of the CDFI program.

Director Lazar will meet with Mike Lapin, President of the Community Preservation Corporation (CPC), a 20-year-old non-profit mortgage lender specializing in financing of low- and moderate-

income housing throughout New York. Ninety-four banking institutions, pension funds, and insurance companies currently sponsor CPC, providing funding of over \$1 billion. Their Washington counsel has already stated that CPC would be very supportive of CDFI. On February 23, Director Lazar is also meeting with ABA's Center for Community Development.

We will also try to educate a broader array of groups that care about low-income communities, organizations such as those who recently attended the Rainbow Coalition event in New York, the NAACP, mayors, other advocacy groups, and think-tanks such as the Center on Budget and Policy Priorities.

Speeches

We have identified four influential groups and their upcoming conference dates for speeches to discuss CDFI reauthorization. We have prioritized the groups and divided them among you, Deputy Secretary Summers, and Under Secretary Hawke.

Secretary Rubin:

- 1) **John Taylor, National Community Reinvestment Coalition (NCRC)** invited you to be the keynote speaker at its 1998 Annual National Conference, on March 18-20, 1998. We strongly recommend that you accept.

Yes _____ No _____ Let's discuss _____

- 2) **The Association for Enterprise Opportunity's (AEO)** eighth annual conference and membership meeting will take place April 22-25, 1998. The conference theme is *Microenterprise Works When We All Work Together: A Blueprint for Public-Private Partnerships*. We recommend that you accept.

Yes _____ No _____ Let's discuss _____

Deputy Secretary Summers:

- 3) **The National Council for Urban Economic Development**, a coalition of 9 urban economic development organizations, invited you to speak at a Washington briefing: *Financing Economic Development and Attracting Jobs*, March 1-3, 1998. They requested that you address the conference of the Board of Directors. These groups have a combined membership in excess of 13,000 people. We recommend that Deputy Secretary Summers address this group.

Under Secretary Hawke:

- 4) **The National Association of Affordable Housing Lenders (NAAHL)** invited you to be the keynote speaker at their upcoming Southeast Regional Conference in Miami, April 30-May 1, 1998. Over 200 lenders, housing sponsors, public agency officials, and other housing professionals will participate in this conference. Under Secretary is scheduled to address this group.

Site Visits

We think it would be useful to organize site visits to CDFI organizations. These events would include Members of Congress, representatives from appropriate banks, and community development organizations. We have prioritized the list of site visits and divided them among Treasury officials.

Secretary Rubin:

- 1) **Nonprofit Facilities Fund, New York, New York.** Its 130 borrowers range from arts and cultural facilities, religious congregations' community service centers, health facilities and child care centers. Over \$11 million in loans have been made. NFF's capital comes from an equally broad range of investors, including numerous banks, foundations, other financial institutions including insurance companies, and several public entities. The CDFI Fund's \$1 million loan will assist NFF in both its New York efforts and its geographic expansion. Senator D'Amato would be invited to attend.

Yes _____ No _____ Let's discuss _____

- 2) **Enterprise Foudation, Baltimore, Maryland.** In Baltimore we would like to work with the Enterprise Foundation and some of our CDFI and BEA award recipients to put together a site visit that would highlight, among other things, the low-income housing tax credit. We recommend that you attend this event.

Yes _____ No _____ Let's discuss _____

Deputy Secretary Summers:

- 3) **Self-Help, Durham, North Carolina.** Their overall track record is very impressive. Through strategic deployment of its resources and five regional offices in the state, Self-Help has helped to improve the lives of thousands of families in North Carolina. This level of achievement has been recognized by the wide range of support and investment that Self-Help attracts from corporations, banks, foundations and state and local government. This work is having significant impact in transforming conventional loan underwriting standards, and thereby creating new opportunities for low-income home ownership. The CDFI Fund's \$3 million grant will be channeled

to Self-Help Ventures Fund, and will boost its equity capital and assist in elevating its development innovations to an even higher scale.

- 4) **Santa Cruz Community Credit Union, Santa Cruz, California.**

Ed Knight:

- 5) **ACCION Texas, San Antonio, Texas. (Event with the Hispanic Caucus)**