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THE SECRETARY OF COMMERCE

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MEMORANDUM FOR THE PRESIDENT

Introduction

The perception that I have a propensity for taking on great challenges has been reinforced by your designation of me as the Administration's point man on California's economic revitalization efforts. In all seriousness, Mr. President, your decision to be proactive on the California economy is one that I fully support. This is indeed a new day for America led by an aggressive President and an activist administration. This memorandum contains the first in a series of periodic reports I will make to you regarding Administration efforts to address the specific economic problems of California.

My first task has been to gather information and assess the present California situation. As residents of a state where tomorrow has always been better than today, Californians now feel extremely vulnerable. The economy is in a tailspin. The state is unable to provide the necessary relief due to a significant budget deficit, financially strained school system, increasing law enforcement costs and the burden of damaging natural disasters. To gain further insight, I travelled to the state on March 26-27th. After a brief stop in San Francisco to deliver a speech to the

California Council on International Trade, I spent the bulk of my time in the Los Angeles area, meeting with elected officials, business leaders and community activists. Andrew Cuomo and staff from HUD and Commerce joined me in Los Angeles. As a result of this initial visit, I am convinced that with a well planned, coordinated, targeted effort we can make a difference in California in both the short and long term.

Background

As you know, there is a tremendous statewide need for federal assistance in defense conversion and job creation. These problems are especially difficult in the urban centers of the state such as Oakland and Los Angeles, which are struggling with the urban ills of declining schools, rising crime rates and escalating unemployment. In Los Angeles, the need for federal assistance is exacerbated by the totally inadequate response by government at all levels in the recovery effort from last April's disturbances. FEMA and SBA's performances were universally condemned. Moreover, the publicly stated federal response of \$1.3 billion is probably 5 times higher than the amount of new resources that actually reached the community.

There is, however, a fragile line we must walk in undertaking an expanded federal role in the recovery effort. I believe we can successfully balance the competing interests. We are in fact

needed. I was shocked that our presence actually served as a vehicle for convening local leaders whom heretofore had not communicated. With the exception of law enforcement, there seems to be no local plan of action. My judgement is that if we were to send \$100 million in Community Development Block Grant funds today, it would be distributed equally to all L.A. council districts without regard to need or impact. The local community must be forced to develop a comprehensive plan.

My hope is that our presence will facilitate this effort and a plan should be an absolute requirement for major federal assistance. There is a general disbelief about anyone's ability to make a difference. The cynicism is fueled by a dispute over what assistance has actually flowed into L.A. post-April 1992. The largest amount of funding was apparently from insurance settlements -- approximately \$700 million. Most of those who received insurance money, however, did not rebuild, but took the money and abandoned the area. There is also tension between the Maxine Waters organization "Community Build" and "Rebuild LA" (RLA) led by Peter Ueberroth. In my judgement, much of this tension is driven by Waters' personal dislike and mistrust of Ueberroth. Some of it is derived by the early efforts of RLA to do too many things, some of which were beyond their capabilities. This battle has prevented two large, powerful and important elements of a recovery -- community activists and business people -- from coming together sufficiently to rebuild the city.

There are also questions of competing priorities. We must be mindful of the need for large scale investment, business expansion and job creation which often comes from large corporations, and the need to encourage the development of small, medium sized and minority businesses. Maximizing community ownership is essential to long term recovery. We must also be cognizant of the significant ethnic tensions which exist within the mosaic of Los Angeles. I must gladly note, however, that racial and ethnic tensions are much less intense than one might expect. There appears to be improved communication between those of all ethnic groups. We must, of course, work to keep this positive element on track. We can not afford to repeat the mistakes of the past, which saw the public and private sector ineffective, uncoordinated and unable to balance the competing interests within the community.

Recommendations

At this point, the constructive role that the Administration can play in the California economic recovery is three-pronged -- 1) a Presidential Town Meeting in California in April, 2) leadership in assuring the development of a coordinated plan to rebuild L.A., and 3) identifying and marshalling resources of the federal government which can positively affect the lives of all Californians, including those most impacted by the prolonged recession and last year's devastation.

Presidential Town Meeting

A commitment by the Administration to provide leadership and focus on the economic struggles of California could be demonstrated by a Presidential Town Meeting in the state within the next month. The Town Meeting should be broadcast statewide. We could put together a representative and thoughtful audience. The message would be a positive one -- that the federal government is a partner in the economic recovery of the state and will act as a facilitator and coordinator for rebuilding efforts in Los Angeles. You could appeal to civic pride by emphasizing the strengths of a diverse society which is exemplified in California. In any event, a Town Meeting would allow you to show concern while managing expectations. I feel strongly that heavy personal presence by you beyond that recommended above is not wise.

Coordinated Plan to Rebuild L.A.

The federal government should take the leadership role in coordinating federal, state and local relief efforts, as well as facilitating discussion and cooperation among the various non-profit and for-profit entities. We should not, however, decide who should be the principal actors or what areas of the city need assistance. Therefore, at a minimum we must ensure that the local and state officials develop a comprehensive action plan which full integrates the business and community interests.

The L.A. community is obviously disturbed by the decline in quality of life for the average citizen. Guns are more plentiful than ever. Few businesses affected by the riots have rebuilt. Promised community development projects have been slow to materialize. A local political vacuum currently exists because of the retirement of Mayor Bradley and the impending mayoral election which will occur on April 20, 1993. The effects of the California recession and the pending base closings are both deeply felt in the inner city. There is an inadequate supply of capital for minority entrepreneurs to open new businesses, and large employers have failed to locate in the distressed areas.

A coordinated federal effort would address some of these concerns by:

- 1) challenging Los Angeles to develop a comprehensive plan which included business and community development. Such a plan would provide credibility to those involved in Congresswoman Waters' "Community Build" initiative and Peter Ueberroth's "Rebuild L.A." effort and help spur action. The two groups represent key constituents of a state and local recovery effort -- community groups and business leaders. The Rebuild L.A. effort has thus far been moderately successful in attracting capital from private sources and should continue to play a critical role in the revitalization.

2) encouraging private sector involvement in the recovery effort. Businesses are more likely to be created, to relocate and expand in areas where the citizenry and the public sector are cooperative. Moreover, it is far easier for us to call the business community to task when the federal, state and local governments are functioning in unison. Thus, we would hope to enhance job creation in distressed communities.

3) expediting the delivery of services and assistance to those most affected by the uprising. Currently, the interest of the victims is often neglected because of the lack of a clear and cogent process.

Identifying and Marshalling Resources

To accelerate a coordinated and effective federal response, I have established an interagency task force consisting of the White House, the NEC, the CEA, Commerce, HUD, Labor, HHS, Treasury, Agriculture, Transportation, Justice, Defense, Education, SBA, EX-IM bank, FEMA, and OMB. The task force, which will be managed on a daily basis by my Counsellor, Jim Hackney, and Andrew Cuomo, has met and agency representatives have been tasked with an initial assignment of surveying their department for existing programs that could be helpful in a comprehensive federal effort -- both short term and long term.

Additionally, the task force will address the immediate concerns of Los Angeles and the long term concerns of California through: 1) an emergency working group, 2) a community revitalization working group and 3) a long term economic growth working group.

The emergency working group will develop an immediate plan of action in the event of further disturbances that could erupt when verdicts are rendered in the Rodney King Beating Trial and the Reginald Denny Trial. I am in contact with the Attorney General in order to ensure coordination of all federal efforts. This group will ensure that there is a coordinated state, local and federal effort to immediately respond to the crisis.

A second working group -- focusing on community revitalization -- will examine what federal assistance can be redirected to Los Angeles from existing programs and devise methods to facilitate quick expedition of dedicated federal funds. Federal rules and regulations which currently work at cross-purposes would be reexamined by the group. In addition, federal monies in the pipeline for L.A. will hopefully be pushed through immediately. Community groups, corporate interests and small businesses have been exasperated at the inability to mobilize scarce federal resources to address local needs.

A third working group will examine methods to ensure long term economic growth in the state. This group will develop methods to

increase job creation, expedite defense conversion, expand minority business opportunities, enhance technology transfer and provide new trade opportunities in the state.

Next Visit

In addition to the efforts outlined above, I intend to return to California in the next several days to continue my initial assessment. The focus of this second trip will be on Oakland, the Silicon Valley, and areas of Northern California most impacted by some of the base closings. I will also make a second visit to the Los Angeles area for additional meetings with city and state leaders, business groups and community organizations.

We can and will make a difference.



Ronald H. Brown