The original documents are located in Box 39, folder "Urban Policy (3)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

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5/3/76

THE WHITE HOUSE

WASHINGTON

April 21, 1976

MEMORANDUM FOR: JIM CANNON

FROM: ART QUERN

SUBJECT: Opportunity Funding Corporation

The attached materials describe an OEO initiated corporation which is designed to support economic development in minority and low income areas.

It is an operation which has had some success and may offer some insights into economic development in urban areas.

I am in the process of setting up a briefing session with their Board of Directors on May 10th or 11th. If you or any of the other members of the Urban Issues Group would like to join us, you are more than welcome. Regardless, I do believe the attached materials are worth looking at.

Art – Pls ask someone to give me a brief written report on your meeting. Thanks J

Attachment

cc: Art Fletcher
Steve McConahey
Pat Delaney
Lynn May

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MAY, 1975

Profile

John G. Gloster, President
2021 K Street, N.W., Suite 701
Washington, D.C. 20006
202/833-9580

Operating with a capital base of $7.4 million originally provided by the Office of Economic Opportunity, OFC was chartered in June, 1970, to test and demonstrate "a range of capital protection, rediscount and incentive arrangements" and "to act as an experimental central risk reduction mechanism" in support of economic development in minority and low-income areas.

Although nearly all of OFC's activities inevitably result in direct benefits to individual emerging businesses, this is secondary to the Corporation's broader goal. OFC was not intended primarily as a business-assistance organization to provide direct loans or technical assistance to minority entrepreneurs. Rather, OFC attempts to show how indirect financing techniques can stimulate private investment to quicken the economic growth of capital-poor communities.

By sharing the risk with such investors, OFC seeks to reduce the investors' exposure to more tolerable levels. In other words, OFC seeks to NORMALIZE the risk of investment in capital-poor communities. OFC has maximum flexibility in structuring the form of assistance to be provided development projects. Special programs have been designed to assist in specific areas of enterprise, but unlike other government and private participants in economic development, OFC is able to structure its assistance packages in accordance with the unique needs of the applicant. Financing vehicles which may be used include guarantees of every possible type, rediscounting, put options, call options, interim funding, etc. Through an affiliate organization under OFC management, OFC is also able to consider venture-capital equity investments. OFC may provide assistance to all forms of business organization, including those which are not eligible under SBA and other government programs. OFC may also provide assistance in those areas of business not covered by government programs, such as the communications media.

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In all its programs, OFC seeks to leverage its funds so as to multiply both the financial and technical resources flowing into the low-income communities. One of the purposes of such leveraging is to stretch to the utmost the tax dollars available to OFC. The PRIMARY purpose, however, is to demonstrate how relatively small amounts of money can be used to attract much larger amounts into poverty-area economic development.

In just over four years, OFC has generated in excess of $30 million of private investment into economic development. Actual losses have been only about $600,000, or less than 8% of the total amount directly guaranteed by OFC. These funds have assisted projects in over thirty states. In addition, OFC maintains over $5 million of its funds on deposit at some 45 commercial banks in disadvantaged communities. These funds have been monitored to encourage use in stimulating further lending within these communities.

OFC has administered five major special programs to test the effectiveness of innovative risk-reduction techniques in increasing the flow of capital to disadvantaged communities:

1. Assistance to Poverty-Area Banks: In addition to placing deposits with poverty-area banks, OFC has played a key role in helping minority banks raise capital. OFC guaranties have now helped bring a total of $7,000,000 in new capital into minority banks, most recently during the $3,000,000 recapitalization of Citizens Trust Bank in Atlanta.

2. Flexible Guaranty Program: Under this program, OFC extends lines of guaranty credit to selected local and regional economic development organizations to assist in financing ventures which they sponsor or support. OFC and its partners have extended guaranties totalling $1,474,000 and leveraged some $7,100,000 to assist such local ventures. Also under this program, OFC directly assists selected programs or projects of significant scale and impact that do not fall under the partnership arrangement.

3. Local Development Companies: OFC resources have generated commitments totalling $1,050,000 for use as "local injection matching funds" required for SBA participation in plant and facilities loans to minority businesses in high unemployment areas. To date, leveraging has exceeded $7,500,000.

4. Real Estate Development Program: OFC guaranties have generated nearly $6,650,000 for projects of importance to minority communities and new towns.

5. Bonding for Minority Contractors: Using several advanced guaranty techniques, OFC guaranties of $1,256,000 have generated $10,536,000 in contracts for minority firms.

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Under all of these programs, as well as in our flexible, or unprogrammed, activities, we find that our guarantee is often placed with a local commercial bank which serves as the actual funding entity. To assure acceptability of our guarantee by commercial banks, OFC corporate policy defines on exceptionally conservative reserve approach, ranging from 33% to 100% of contingent liability depending upon category. Total reserves currently stand at 67.2% of total contingent liability. OFC has never failed to promptly fulfill any obligation in accordance with the terms and conditions of its guaranties, and can supply references within the banking community.

OFC activities are directed by a sixteen-member Board of Governors drawn from all areas of national affairs. Chairman of the Board is David B. Hertz, Director, McKinsey & Company, New York. Other members of the Board of interest to the banking community may include:

Theodore D. Brown, President, First National Bank of Denver
James M. Hall, Senior Vice President, The TI Corporation, Los Angeles (Mr. Hall formerly served as Superintendent of Banks, State of California)
John D. Mabie, President, Mid-Continent Capital Corporation, Chicago
Robert O. Dehlendorf II, Senior Vice President, A.G. Becker and Company, Chicago
Dan W. Lufkin, Donaldson, Lufkin, and Jenerette, Inc., N.Y.

Remaining members of the Board hold similar positions in areas such as corporate management, education, communications, and public affairs. A list of the OFC management staff is attached.

OFC also acts under contract as manager of the Cooperative Assistance Fund. CAF is a privately-funded, non-profit corporation established to provide investment risk capital (subordinated loans, equity, guaranties) to promote the advancement of economic opportunity for members of poverty and minority groups. Incorporators of CAF include nine of the leading foundations in the country; Rockefeller Brothers, Ford, Field, New World, New York, Norman, Ellis L. Phillips, Taconic and the Sachem Fund.

As one result of the success of its own program, OFC has received substantial funding from both private and government sources to design and develop new joint participation programs within the minority/ low-income economic development area.

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Jack Gloster (A.B., Amherst; M.A., Columbia; MBA., Harvard), joined OFC in December 1970 as its first President. Previously he was Director of Economic Development for the National Urban Coalition, and had worked in a black commercial bank in Atlanta as well as in Federal government.

Paul Pryde, Senior Vice President, has also been with OFC since its inception. He is a Howard University graduate with post graduate credits in business and finance. His previous experience includes Federal government, private management consulting and minority enterprise development.

Arnold Nachmanoff, Vice President for Investment Management, holds an A.B. from Columbia and an M.A. from the University of Denver and has completed courses in finance and investment at George Washington University. He came to OFC in Jaunary 1972 after 10 years experience in foreign affairs, including top-level involvement with overseas economic development.

Steven Nelson (B.S., University of Virginia; M.A., MIT), Treasurer, came to OFC in March 1971 from Value Line where he was a financial analyst specializing in banking and insurance.

Mildred Dickerson, Comptroller, joined OFC in March 1971, after nearly 20 years experience in budgeting and fiscal management with State Department.

James McWilliams, General Counsel, is a graduate of the University of Wisconsin Law School with extensive prior experience, including service as Assistant Attorney General of the Virgin Islands and General Counsel of the V.I. Port Authority.

Rochelle M. Fashaw, Director of Communications, joined OFC in 1972; previously worked as Director, Information Office, Interracial Council for Business Opportunity and as Staff Assistant to Senator Edward W. Brooke responsible for Federal and Special Projects.

Regional Managers - Investment Management Group:

Joseph Chavez, a C.P.A. with an M.B.A. from the University of Denver, previously worked as a certified public accountant with Arthur Anderson & Co; as comptroller of a private housing corporation; and as financial director of the Denver Community Development Corporation. He joined the OFC staff in January, 1973.

Allan Kozu (B.S., University of Washington; M.B.A., Stanford), joined OFC in 1973 following experience with the Federal Home Loan Bank and with Marshall Kaplan & Gans, Management Consultants.

David Jameson, (A.B., Princeton/University of Arizona) joined OFC in 1975, following ten years experience in banking, with Wells Fargo Bank, and as President or Executive Officer of Central Bank of Mobile, Valley Bank of Livermore, California, and First National Bank of Fresno, California; and as a government economic development specialist in the western Pacific.

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THE BANKERS MAGAZINE

VOL. 156 No. 2

SPRING 1973

- Issues and Interpretations: Quotas in Banking, *Lawrence S. Ritter,*
  Professor of Finance, New York University
  and *William L. Silber,* Associate Professor of Economics, New York University
- Where Does American Banking Go From Here? *Henry C. Wallich,*
  Professor of Economics, Yale University
  and *Mable I. Wallich*
- The Marrow of Banking: Profit in the Spread, *H. Peers Brewer,*
  Vice President, Manufacturers Hanover Trust Company, New York City
- Banks and the Public—Louis Harris Talks to Paul Nadler
- What Bankers Should Know About Tax-Sheltered Investments, *David A. Gracer,*
  President, David Gracer Company, New York City
- Banking By Mail, *M. W. Martin,* Columbus, Ohio
- Flexible Guaranties, *John G. Gloster,*
  President, Opportunity Funding Corporation, Washington, D.C.
- Strategic Planning in Banks, *Israel Unterman,*
  Professor of Management, C.W. Post Center, Brookville, New York
- What Independent Accountants and Internal Auditors Should Expect From
  Each Other, *Robert W. Weber,* General Auditor, Bankers Trust Company, New York City
  and *Jerry D. Lee,* Partner, Ernst & Ernst, New York City
- Loan Review—Bank Quality Control and R&D, *Samuel Wm. Sax,*
  President, Exchange National Bank, Chicago
- A Model for Banking Growth, *Alan Gart*
  Vice President, Manufacturers Hanover Trust Company, New York City
- Who Is Abe Pomerantz? *Harold S. Taylor,*
  Contributing Editor, The Bankers Magazine
- The Impact of Holding Company Acquisitions on Bank Performance,
  Peter S. Rose and *Donald R. Fraser,* Associate Professors of Finance, Texas A&M University
- Management Interlocks Between Mutual Savings Banks and Commercial Banks,
  Jerome C. Darnell, Economist, Federal Reserve Bank of Philadelphia
- Bank Capital Management: Investors Relations, *David C. Cates*
- The World of Banking, International Report
- The Economist's Corner, Banking and Regional Growth, *Norman Robertson,*
  Senior Vice President and Chief Economist, Mellon Bank, Pittsburgh
- Book Reviews

Urban ghettos and rural areas of poverty are being strangled from the lack of capital investment. Normal financial resources simply aren't providing enough funds. Now the federally sponsored Opportunity Funding Corporation is offering new assistance.

Flexible Guaranties

JOHN G. GLOSTER

OF ALL THE FACTORS which stand as deterrents to the more rapid economic growth of our nation's poor and disadvantaged communities, none, perhaps, is more critical than the dearth of investment and working capital. This is not to deny the often critical importance of other factors, such as the need for greater managerial capacity, or the difficulties of identifying and obtaining dependable markets. Nonetheless, no single factor so effectively stifles business development in black and other poverty communities as the reluctance of outside capital sources to invest in ventures or projects in these communities. Coupled with the inability of poverty-area residents, engaged as they are in day-to-day struggle for economic survival, to accumulate significant savings (the ultimate source of investment capital), this reluctance on the part of outside investors operates to permanently seal off low-income communities from the capital needed to start and sustain viable enterprises.

The causes for this investor reluctance are well catalogued: high crime rates, scarcity of experienced management, high unemployment, low ed-

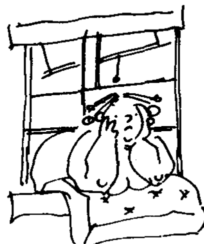
John G. Gloster is President of the Opportunity Funding Corporation, Washington, D.C. He has a B.A. degree from Amherst College, an M.A. from Columbia University, and an M.B.A. from the Harvard Business School. Mr. Gloster formerly served in the U.S. State Department, the Department of Housing and Urban Development, and as Director of the Urban Coalitions Economic Development and Manpower program.

Mr. Gloster wishes to express his appreciation to Paul Pryde and other members of the OFC staff for their help in preparing this article.

ucational and skills levels, high cost of credit, low level of productivity, economic isolation. In short, the slum economy is "a mindless marketplace of anarchy," into which the outside businessman will venture only when incentives or benefits are sufficient to cover "all the risks and uncertainties involved."

The fact that in some cases, at least, these risks may be more perceived than real does not alter the situation for the minority or disadvantaged businessman. The stark reality for him is that more often than not no investor can be found willing to undertake the risks which he fears may accompany such an investment.

Investor reluctance tends to increase with the size of the investment. This is a major reason why the entrepreneurial instincts that do manage to overcome the anti-business environment of these communities tend to be channeled into so-called "Mom-and-Pop" businesses, with their typically minimal capital requirements. Even these frequently marginal businesses, however, characteristically suffer from under-capitalization and lack of access to working capital.



REDUCING THE RISKS

Significantly, government efforts to foster greater economic growth have long recognized the need to provide some form of risk reduction to encourage greater investment community participation in providing capital for the economic growth and revitalization of poor and disadvantaged communities. Under programs developed in the Sixties, both the Economic Development Administration (EDA) of the Department of Commerce and the Small Business Administration (SBA) began to use guaranties as a means of reducing risks for private sector capital sources investing in ventures in both poor rural and urban minority communities. Although much criticized, these government programs have gradually opened up traditional loan capital sources to minority businesses. Beginning with Project Own, launched by then SBA Administrator Howard Samuels in 1969, SBA loan guaranty programs have made increasing amounts of bank credit available to small minority enterprises. As shown below, the impact of this program has steadily increased with the Nixon Administration's continued emphasis on minority enterprise.

SBA MINORITY ENTERPRISE LOAN GUARANTIES
(In millions of dollars)

Fiscal Year	*Number of Loans*	*$*
1969	4,120	$ 93.6
1970	2,716	89.0
1971	3,224	120.9
1972	3,703	158.1

SOURCE: SBA

As helpful as present government loan guaranty programs are, however, they are often too rigid to meet the needs of low-income minority community groups or entrepreneurs. Lending agencies tend to demand the maximum guaranty coverage permitted by law, and eligibility for guaranties is restricted to certain types of lending institutions and projects. Beyond this, existing guaranty programs are addressed almost exclusively to the need for debt capital, doing little to meet the ever-present need for greater amounts of equity capital. Therefore, as a part of its basic objective of demonstrating that innovative applications of risk-reduction and other secondary financing techniques (guaranties, discounting, incentives) can increase the flow of private capital into low-income communities, Opportunity Funding Corporation (OFC) recently launched an experimental Flexible Guaranty Program.[1]

THE OFC PROGRAM

The OFC Flexible Guaranty Program seeks to test a flexible guaranty mechanism for community-based projects, primarily using carefully selected economic development organizations. These organizations will be able to utilize OFC guaranties to increase their financial packaging capacity. The purpose of the program is to demonstrate that effectiveness (in terms of community impact and financial success of projects) and efficiency (in terms of dollars invested per dollar of guaranty cost) can be maximized through flexibility to:

[1] Established in June 1970, with a $7.4 million grant from the Office of Economic Opportunity, the Opportunity Funding Corporation (OFC) is a privately-incorporated, tax-exempt, non-profit organization. Governed by its own Board of Governors, it conducts projects designed to test new methods of attracting capital into low-income communities.

- Negotiate guaranty levels and terms.
- Employ various financial techniques not usually associated with existing guaranty programs (e.g., puts, straddles, front-end guaranties).
- Provide guaranty protection to financing sources not currently eligible under most government programs.

Thus the Flexible Guaranty Program is intended to provide the impetus for significant poverty area economic development projects that would not—or could not—be assisted by existing federal or state programs.

OFC has allocated up to $2 million for reserves to support flexible guaranties. It is anticipated that a considerable number of the projects supported with flexible guaranties will be successful. Thus, the $2 million reserve fund should furnish leverage for project funds far in excess of this amount. The cash reserve will remain as part of OFC's balance sheet until needed to meet the conditions of specific guaranty agreements.

How The Program Operates

The Flexible Guaranty Program is implemented in two ways:

(1) OFC delegates the responsibility for identification, financial packaging, and negotiation of specific projects to qualified technical assistance and/or community development organizations, both rural and urban. In effect, OFC commits a *line of guaranty authority* to selected "partners," who in turn screen, evaluate, and negotiate financial packages in accordance with previously defined criteria. These may be projects in which the "partner" participates directly or projects which it sponsors. The partner organization has the incentive to negotiate the best possible deals (lowest guaranty level, shortest duration of guaranty) in order to utilize its guaranty line to the fullest extent possible. While OFC receives proposed packages at an early stage, is kept informed throughout negotiations, and gives final approval to specific guaranties, it generally is not directly involved in the negotiations. The partner organization also submits periodic reports on the project to OFC after the deal is completed.

(2) OFC directly negotiates support for projects if a suitable partnership arrangement is not feasible and there is a unique opportunity to demonstrate the effectiveness of flexible guaranties. This technique will be used sparingly, usually for larger projects which can markedly affect the economic and/or social development of a low-income community.

Selection of "Partner" Organizations

The effectiveness of the Flexible Guaranty Program to a great extent depends on the cooperating development organizations selected as OFC's "partners." Business and economic development organizations, such as Community Development Corporations (CDCs), Local Development Companies (LDCs), Model Cities Economic Development Corporations, and technical assistance agencies are eligible for participation in the program. Because of funding limitations, however, a careful selection is made among applicants. Preference is given to organizations which meet the following criteria:

▲ Demonstrated business development performance.
▲ Established working relationships with local or regional financial institutions, government agencies, and other resource organizations.
▲ Effective relationships with community-based organizations and/or community residents.

In terms of their ability to develop financial packages for business ventures, the organizations should have:

— Qualified and well-balanced staff—i.e., a good blend of executive personnel, financial analysts and business management specialists.
— Access to good advisors—i.e., management and technical consultants, legal and financial experts.
— Experience in successful packaging and financing of relatively large-scale business ventures.
— A range of potential business packages—i.e., several projects either under development or proposed for the future.

While preference will be given to those organizations that most closely meet these criteria, a suitable mix of organizations and geographic locations for experimental purposes will also be considered in the selection process. It is anticipated that OFC will enter into agreements with approximately four to six "partners" during the first year of the program.

Criteria for Eligible Projects

The types of projects that community organizations may finance with flexible guaranties include interim assistance to ongoing businesses, expansions, acquisitions, and new enterprises. In all cases, but particularly for new starts, preference should be

given to projects that provide for management assistance from an investor or that include the cost of such assistance in the financing package.

In general, projects supported under the OFC Flexible Guaranty Program should:

- Be innovative—the OFC guaranty should be employed in a way or in a situation where existing government guaranty programs cannot or are not presently operating.
- Have a reasonable prospect for continuing operational viability without dependence on future grant or additional guaranty assistance.
- Have sufficient scale to impact on substantial numbers of poor or minority people in terms of either employment, capital mobilization or redistribution of income and ownership.
- Provide for effective management, technical, or administrative assistance, as well as financial resources to enhance the project's success potential.

More specifically, projects to be supported in the Flexible Guaranty Program should:

▲ Be owned (totally, in part, or in future by agreement) or sponsored by an organization representing the interests of low-income people and/or low-income communities.

▲ Utilize the OFC guaranty directly or indirectly to induce additional capital to flow into a low-income community.

▲ Demonstrate greater potential *savings* and/or *flexibility* than existing government guaranty programs. In no case will an OFC guaranty result in placing an investor or lender in a riskless position—i.e., where an investor or lender's exposure would be 100 percent covered by an OFC guaranty alone or in combination with other guaranties. On the contrary, potential savings will be demonstrated by negotiating guaranties of lower levels and/or shorter duration than the normal terms of existing government guaranty programs for similar purposes. Flexibility will be demonstrated by negotiating a level or form of guaranty not currently employed or by providing a guaranty for a source of funds which is not eligible under existing programs.

The initial "partners" announced by OFC will each have a line of guaranty authority to use in packaging deals and assisting ventures which they sponsor or own. These "partners" represent a range of technical assistance and economic development organizations, serving black, brown, native American and poor white communities in several parts of the country: The Community Investment and Development, Inc. (CIDI), a community development corporation located in Little Rock, Arkansas will have a guaranty authority of $300,000; the Lummi Indian Tribal Enterprise (LITE) of Marietta, Washington, $200,000; the Southern Cooperative Development Fund (SCDF), headquartered in Lafayette, Louisiana and assisting cooperatives throughout the South, $200,000; and the Colorado Economic Development Agency (CEDA), a technical assistance organization which operates throughout Colorado and other parts of the Southwest, $500,000.

FUNDING GUIDELINES

OFC generally limits the amount of guaranty authority it will extend to any one partner organization to a maximum of $500,000. Specific amounts depend on the size, capabilities and project potential of the cooperating organizations. To encourage rapid use of the guaranty authority, the duration of any "partnership" agreement usually is limited to two years, subject to renewal. To provide a useful sample for evaluation purposes, partner organizations are expected to utilize the guaranty authority to complete several (four or five) substantial packages, rather than a single large package or numerous small ones. OFC retains the option to revoke any unobligated guaranty authority if it determines that performance under the terms of the agreement is unsatisfactory. A nominal guaranty fee will be charged by OFC.

In general, OFC places the following restrictions on the use of its guaranties:

- OFC funds will not be used to guarantee financing where a government guaranty is otherwise available on reasonable terms and conditions. Partner organizations will be required to certify that their projects are ineligible for other government guaranties before an OFC guaranty will be considered.
- Unless expressly approved by OFC, its funds will not be used to collateralize any guaranty (OFC will not place its funds in deposit or escrow accounts but will disburse funds only to meet actual losses covered under its guaranty).
- OFC funds will not be used to make direct loans, grants or investments, nor should they by virtue of a guaranty or other agreement entered into by any selected cooperating organization be encum-

bered for an excessive period of time. On the contrary, OFC guaranty authority should be employed to achieve the greatest possible turnover and financing multipliers.

- OFC guaranty authority should be used only when absolutely essential to the consummation of the transactions for additional capital.

Not wishing to overly restrict the latitude of action available to "partners," OFC is prepared to consider modifications of the general guidelines in special cases.

Illustrative Cases

The following is a hypothetical situation which illustrates how flexible guaranties might be utilized:

An economic development organization, such as a Community Development Corporation, is selected as an OFC "partner." OFC commits to it a line of guaranty authority. There are any number of typical projects that the CDC might undertake, using the OFC guaranty authority to leverage the required financing.

— Provide a partial guaranty to a bank to extend lines of credit to the CDC's existing businesses which have had difficulty in meeting seasonal needs for credit. Assuming that these businesses were originally financed with SBA-guaranteed bank loans (secured by the assets of the businesses), this type of working capital financing probably would not be available from SBA.

— Identify a potential investor with a background in manufacturing. In return for investment and management augmentation in a new plastics molding plant, for example, the CDC could offer the investor a "put" option—the right to sell his equity in the business to the CDC (or OFC) at perhaps 60 percent of his original investment. Coupled with this effective 60 percent guaranty would be a "call" option held by the CDC which would permit the CDC to purchase after a minimal period of time up to 50 percent of the investor's equity at perhaps 250 percent of his original investment. Thus, this unique type of flexible financing arrangement would provide the investor with limited downside risk and the chance to multiply his investment by two and one-half times. The CDC will be provided with the necessary financing to start up the plant, management assistance to provide efficient operation and training of less skilled employees and, most important, through the "call" option, an opportunity to obtain a larger share of the equity and assure control of the business when it becomes successful.

— Use the guaranty authority to induce a bank to issue a letter of intent to provide a line of credit for working capital so that the CDC could petition Federal Communications Commission for a radio station license. Unless an applicant's capital resources are lined up, the FCC would not consider such a request for a communications license.

— Use the OFC guaranty authority to provide partial lease guaranties of a limited duration for CDC business ventures to be relocated in a regional shopping center where sales volume increases are virtually assured.

In rare instances, OFC will use the Flexible Guaranty technique to facilitate the financing of packages of significant size and impact, other than those sponsored by organizations selected as Flexible Guaranty "partners." One example might be to facilitate acquisition by a community group of a profitable manufacturing enterprise whose present owners wish to divest for reasons unrelated to the company's continued financial viability. Another could be to assist a community organization obtain a majority equity position in a cable television franchise.

IMPLICATIONS FOR CHANGE

From the varied experiences that can be expected to evolve under its Flexible Guaranty program, OFC hopes to derive support for recommendations for at least two kinds of change:

- Through the development and publishing of case histories describing innovative new approaches undertaken under its Flexible Guaranty program, OFC will attempt to encourage replication of these techniques by other private funding sources (foundations, church organizations, venture capital funds, etc.); and,
- Based on experience with the Flexible Guaranty Program, OFC will attempt to develop legislative recommendations to broaden the scope of present government guaranty programs.

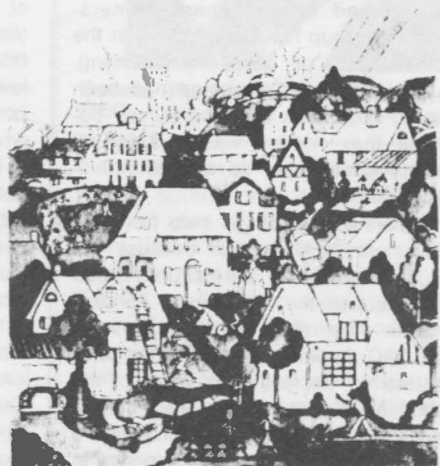
It is hoped that through these means the access of poor and minority communities to outside investment capital can eventually be vastly expanded.

A reprint from

VOL. 5, NO. 5

BLACK ENTERPRISE

FOR BLACK MEN AND WOMEN
WHO WANT TO GET AHEAD



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Opportunity Funding Corp.

Four years after its birth, the Washington-based company is proving that minority business is viable

Two years ago, 72 minority farmers near Salinas, Calif., wanted to buy the strawberry farm they had worked on as tenant farmers. Twelve of the group had been trained in the business aspects of cooperative farming, and outside technical assistance had been lined up to help them over the bumpy period. What they needed was a $165,000 three-year loan to wrap up a $450,000 financing package.

The farmers could not get help from the Small Business Administration because the SBA does not make agriculture-related loans. In stepped the Opportunity Funding Corporation. After talks with the Bank of America, OFC agreed to guarantee the bank against loss on the final two years of the $165,000 loan, and the families were able to purchase their farm. They also purchased a new level of living because, after a period of transition, the average income of each family nearly doubled from the average $5,000 made working it as tenant farmers.

"The farm co-op is illustrative of the kinds of deals we like to make," says John Gloster, OFC president. "It's what we like to think we're about—creating ownership in a low-income community, ownership of economic resources, which, in our opinion, is what economic empowerment of minorities is all about."

Gloster, a native of Baltimore, Md., came to Washington to head the new OFC venture in December, 1970, from the National Urban Coalition where he directed the Coalition's Economic Development Program. He works with 13 full-time staffers and a 15 member Board of Governors who are drawn from a cross-section of businesses and economic development organizations.

Much of his first two years was spent building the organization, acquiring a staff, and getting its initial program approved by OEO.

Since receiving its charter in 1970 as a private, non-profit corporation, OFC, which was initially funded with a $7.4 million grant from the Office of Economic Opportunity, has generated more than $29 million dollars in funds for some 90 low-income and minority economic development projects in urban as well as rural areas across the country.

Through indirect financing and providing guaranties on investments and loans to minority businesses, OFC increases the flow of private and public capital to minority business ventures which potential investors or lenders might consider "high risk." Using the $7.4 million grant as backup money, OFC can be thought of, in a sense, as a cosigner.

OFC got its start in 1969 when Theodore Cross, author of "Black Capitalism" was asked by Donald Rumsfeld, then director of the Office of Economic Opportunity, to design a new approach to community economic development, apart from programs OEO and other government agencies were already funding. Cross conceived the notion of a quasi-independent, but government funded entity which would provide guarantees and other indirect financing.

Working on that principle, OFC has stood behind a number of diverse minority enterprises, from the strawberry farm, to a $100,000 guaranty on a $600,000 real estate-equipment mortgage package for a nursing home in a Denver, Colo. black community; a $50,000 guaranty on a $300,000 working capital loan for a Lummi Indian intertribal fish market operation in the state of Washington and through the Harlem Commonwealth Council in New York City, a 55 per cent guaranty on a $164,000 loan for acquiring five closed-circuit sites in black districts around the city for the telecast of the Muhammad Ali-George Foreman fight from Zaire. These projects got off the ground through OFC's Flexible Guaranty Program. OFC considers its guaranties flexible because they aren't limited, like the SBA's, for example, to bank loans, but can be extended to include other fund sources like loans from manufacturers, suppliers and letters of credit.

Theodore Cross, author of "Black Capitalism," and originator of the OFC concept.

However, no loan or investment is guaranteed 100 per cent by OFC. Most of its guaranties fall into the 40 per cent to 80 per cent category, for which the corporation charges a 1.6 to 2.0 per cent per annum guaranty fee for its services. Bonafide community groups get discounts on the guaranty fee.

OFC also has a Bank Support Program, a Construction Bonding Program, a Real Estate Program, and a Local Development Companies Program. By placing its own funds in poverty-area banks, OFC helps the banks make loans, increase their own earnings, and thus become viable institutions. Part of the interest on OFC deposits is used for management development programs for officers and directors of participating banks. A minority contractor can get help overcoming traditional barriers to bonding by having OFC issue letters of credit on their behalf of a bonded construction job. The Real Estate Program was designed to encourage investments in low-income real estate development projects.

"My job," says Jack Gloster, OFC head, "was to make the concept work."

Under the LDC program, OFC commits a line of guaranty authority to community development agencies which then become OFC's "partners." These organizations screen, evaluate, and negotiate financial packages for local projects.

OFC began its assistance to LDCs by teaming up with the Presbyterian Economic Development Corporation (PEDCO) to help LDCs qualify for SBA loans. SBA allows LDCs in high unemployment areas to borrow up to $350,000 to lend to local businesses so that they can buy or expand plants and other business facilities, provided they raise at least 10 per cent of the required funds.

For many of the companies this is a difficult task. With an OFC guaranty, PEDCO made $400,000 available to LDCs in New York and New Jersey. As a result, 13 projects received $2.2 million dollars in loans in the first year of the plan. The projects included medical and dental clinics, a food products wholesale operation and a photofinisher. Because of the initial success of the program, PEDCO increased its allocation and extended the program to all 50 states.

One of the biggest problems OFC encounters is raising equity or venture capital instead of just loan capital for minority businesses. "The general concept of those who have the money is that minority enterprises are risky anyway, and they think they're doubling their risk when they buy into a minority company," Gloster says. "While it isn't easy to raise loan capital, it's a helluva lot easier than trying to raise equity capital." For the most part, minority enterprises must depend on OFC guaranty loans for equity capital.

Another problem faced by OFC is distinguishing between future winners and losers among its deals. In this regard, OFC has an outstanding track record as can be seen from the fact that its losses to date amount to $149,000, $116,000 of which is attributed to the Construction Bonding Program.

"While most contractors are good builders," Gloster reports, "they're not necessarily good businessmen." He was referring to what he termed "bad back office management" in many minority construction companies. Gloster also said inflation, the highly volatile nature of the construction business as a whole, as well as the fact that most firms are undercapitalized, account for the OFC construction bonding losses.

Ultimately, OFC wants to reach a point where it can support itself entirely through private funds. Currently it depends on direct support from OEO in the form of two-year grants averaging $450,000 annually. The corporation expects to receive continued funding from another government agency after OEO officially ceases to operate after June, 1975.

At any rate, according to OFC lawyers, if the corporation is not funded after June by another government agency, it will still be allowed to keep the original $7.4 million dollar grant from OEO. In the meantime, OFC is beginning to receive breakthrough money, $50,000 so far, from such private sources as the Rockefeller Brothers Fund to support its programs. In and of itself, OFC can support two-thirds of its current operating cost, which averages about $450,000 annually, through interests on deposits in minority banks and through the annual guaranty fee it charges for its services.

Donald Rumsfeld, former head of the OEO, got OFC off the ground.

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Minority Entry to Mainstream Markets

By JOHN G. GLOSTER

For Carter Wilson, a black man in Norfolk, Va., the American dream has come true. In June, after nearly 20 years as a policeman, Mr. Wilson became the owner of the Resins Research Corporation, a manufacturer of adhesives and sealants with sales of some $400,000 a year.

His story is but the most recent example of an approach to minority economic development that a growing number of those directly involved in this field regard as an important new strategy for enabling minorities to overcome the economic chasm which presently separates them from the American economic mainstream.

If the capital and income gaps dividing the minority and white communities are ever to be significantly narrowed, creative ways must be found to transfer productive assets into minority hands. Most minority-owned concerns are still concentrated on the edges of the service industries, catering to limited markets characterized by low disposable incomes, low savings, high unemployment and general economic instability. It is hardly realistic to rely exclusively on enterprises developed in the nation's backwaters and eddies to enable minorities to become integral parts of today's sophisticated American economy.

The acquisition strategy provides immediate entree to mainstream markets, expertise and financing. Moreover, by providing those wishing to divest with what they want—a buyer—it relies for its success on the mutual self-interest of whites and minorities rather than on charitable or philanthropic motivations.

Carter Wilson realized his dream with a big assist from the National Council for Equal Business Opportunity, a Washington-based minority enterprise assistance program. The council, with funding from the Commerce Department's Office of Minority Business Enterprise, operates a program designed to identify profitable, established businesses which can be transferred into the hands of capable minority entrepreneurs.

Taking note of Mr. Wilson's activity as board chairman of the Norfolk branch of Rev. Leon Sullivan's Opportunities Industrialization Center, part-time manager of his own small business and member of the Norfolk Chamber of Commerce, the council concluded that Mr. Wilson was a likely candidate for business success. Great weight was also given to what a council staff member described as Mr. Wilson's "extremely aggressive, super-salesman personality" and his willingness to invest a significant portion of his life savings.

The council helped arrange vital additional investment by the Norfolk Investment Corporation, a small business investment company and provided managerial and marketing assistance which will continue. A final critical factor: the company's previous owner remains as the active general manager.

Two objections to the acquisition approach are frequently raised by skeptics: Capital requirements for such deals are even greater than for the more typical, small, minority enterprise and qualified minority entrepreneurs may be hard to find.

> *Blacks should stress buying established businesses instead of starting their own.*

To the first of these objections advocates reply that, while unquestionably private capital accumulation among minorities continues to lag well behind the white community, growing numbers of the black and brown middle classes do have money to invest, which they will more readily put into an established venture than one with less certain prospects.

And, although venture capital for minorities remains scarce, the major sources developed in recent years are beginning to show a decided preference for investment in ventures of greater scale and with demonstrated track records. Urban National, for example, Boston's $10-million minority-oriented venture capital firm, has now placed high priority on acquisitions and has assisted three major ones during the past year. Many of the larger minority enterprise small business investment companies and church-supported funds, such as the Presbyterian Economic Development Corporation, Inc., are also beginning to give greater stress to this approach.

There is also a growing trend among community development corporations to adopt the acquisition strategy. One of the first to do so was New York's Harlem Commonwealth Council which now owns a foundry, a cafeteria equipment manufacturing company and a Caribbean resort hotel, all acquired from white owners. The Delta Foundation, based in Greenville, Miss., has acquired an electric fan manufacturing operation, an electronics concern and a folding staircase company. As a result, both Harlem Commonwealth and Delta were on Black Enterprise magazine's 1974 list of the top 100 black companies.

Finally, conventional capital sources—such as the Norfolk SBIC—find it easier to invest in such situations.

To the skeptic's doubts concerning the availability of "qualified" entrepreneurs, there are also several rebuttals. Many minority enterprise advocates have long contended that given opportunities, many blacks and other minorities would emerge from other areas (including certain wellknown illegitimate businesses).

As a matter of fact, most minority enterprise experts seem to agree that the missing ingredient has more often been managerial training and experience than entrepreneurial drive. These are the very problems which the acquisition strategy can help overcome through the retention of capable management.

Moreover, as a result of their own growing experience, as well as increasing support from the mainstream business community, organizations such as the Harlem Commonwealth Council, Delta Foundation and National Council for Equal Business Opportunity provide important management, marketing and financial backup to the businesses they acquire or assist.

What has the advocates of the acquisition strategy most excited is the large number of potential opportunities in this area. Research done for the Opportunity Funding Corporation based upon Securities and Exchange Commission data, indicates that of 75 proposed corporate divestitures for the period May-October 1973 alone, at least 13 represented profitable situations with positive potential. Included were a number of forced divestitures. Statistics for other periods, backed up by information from investment bankers and major corporations, confirm the potential.

Many acquisition candidates are stable operations ("cash cows") which may match perfectly the needs of Community Development Corporations and other organizations interested in establishing a solid revenue base for their over-all program activities and retaining or adding jobs in the depressed communities which they serve.

To Opportunity Funding and others primarily concerned with the financing of minority and community economic development, the greatest constraint is still the relatively large amount of long-term venture capital required to mount a truly effective acquisition strategy.

To help combat this, Opportunity Funding hopes during the coming year to launch a major risk-sharing program to attract private investment capital into investments of this type by offering investors downside protection in the form of put options (a pledge to buy back shares at a future date and pre-arranged price).

Acquisition strategy advocates stress that their approach is no panacea or substitute for other much-needed programs to assist minority enterprise. Rather, it is one additional approach to helping America's disadvantaged bridge the economic gap.

The strategy, they say, should be part of a greater national effort to develop more creative ways to afford minorities more equitable opportunities for participation in the mainstream economy, including programs—such as the reorganization of the nation's railways—involving massive expenditures of public funds.

Finally, since for some time to come a majority of minority concerns undoubtedly will continue to depend upon markets in their own communities, the challenge of assisting minority enterprise cannot be separated from that of the economic revitalization of those depressed communities in which most minorities continue to live.

John G. Gloster is president of the Opportunity Funding Corporation of Washington, D.C.

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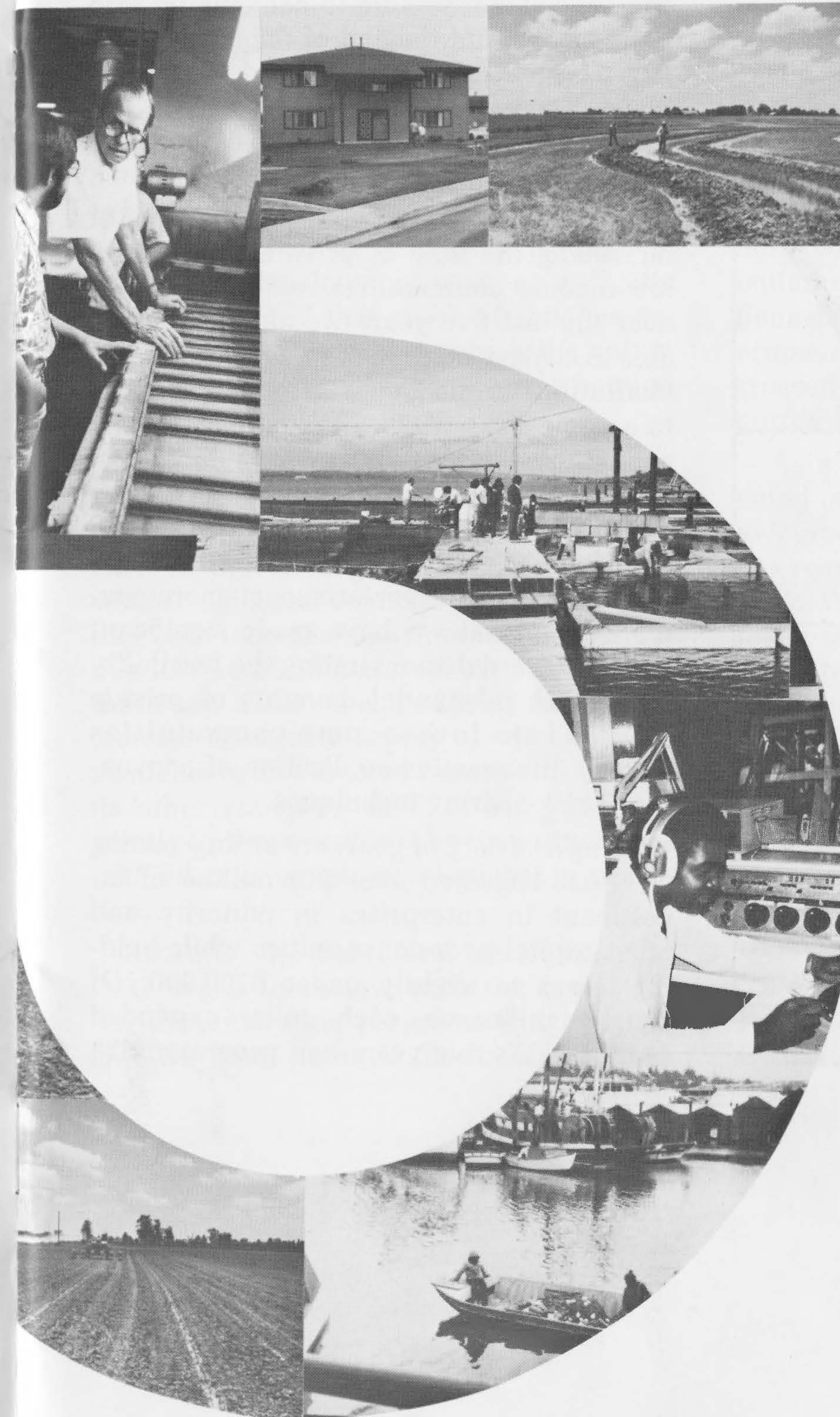
Opportunity Funding Corporation
Annual Report 1975

Opportunity Funding Corporation began operations in 1970 as a private nonprofit corporation to develop, test and demonstrate means of channeling private investment into capital-poor communities. Although designed to function effectively within private capital markets, its initial capital of $7.4 million and other grant support have been provided by the Office of Economic Opportunity, now the Community Services Administration.

OFC's major goal is to develop effective ways of using risk-sharing and indirect financing techniques to stimulate the flow of capital and credit into business and economic development ventures in low-income communities. OFC does not normally provide direct debt or equity financing, nor does it provide technical assistance. Rather, as a central strategy, OFC employs a wide range of guaranty protection techniques to reduce the level of risk assumed by private investors to more normal levels of safety.

Opportunity Funding Corporation



Annual Report 1975

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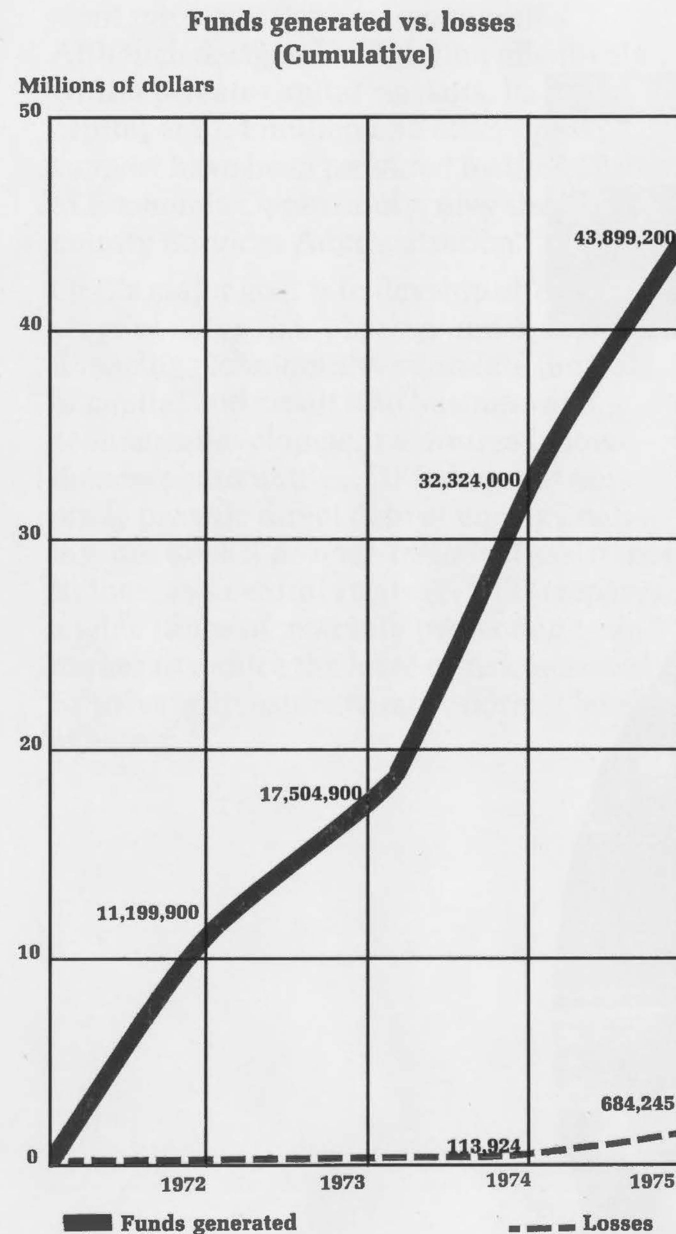
A progress report



For most people and organizations there is a special satisfaction in achieving a fifth anniversary. But the end of the fifth year is also a time for re-evaluation and the making of fresh plans for the future. Because OFC operates as an experimental corporation this is particularly true for our organization.

Established in 1970 to test new ways of increasing the flow of private capital into low-income communities, we believe that over the last five years we also have been able to achieve standing as a sound financial institution. While our mission requires us to assume risks which conventional capital and credit sources typically are reluctant or unwilling to take, we are gratified that we can look forward to 1976 and the years beyond with our initial capital base still intact. In reviewing our performance, moreover, we believe that we have made significant strides toward demonstrating the feasibility of moving substantial amounts of private capital into low-income communities through the creative application of conventional risk-sharing techniques.

Using a variety of guaranty arrangements, OFC has triggered over $40 million of investment in enterprises in minority and other capital-poor communities while holding losses to slightly under $700,000. Of equal significance, each dollar expended during OFC's five years had generated $13 in funds for business and economic development ventures, and through our efforts, over 3,000 jobs have been directly created or maintained. And finally, in large part through the careful investment of its idle funds and reserves and service contracts, OFC is now generating sufficient revenues to cover not only all of its losses, but approximately half of its administrative, research and development costs as well. We need hardly add that much of this has occurred during a period in which the nation has experienced the most severe recession since the Great Depression.

As a result of research and development activities supported to an increasing degree by foundation and other private sources, OFC in the coming year plans to launch several affiliated ventures to increase further both income and ownership opportunities for the disadvantaged. At least two of these new affiliates will address the need to increase the scarce supply of equity capital available to low-income communities. As in its other activities, OFC is being assisted greatly in these ventures by its partnerships with other economic development organizations.

Recently, the Board and management of OFC began to review both the impact of our demonstration programs and the policies we have pursued. Basic assumptions are being re-examined and results analyzed to determine how best to improve OFC's performance in accomplishing its primary goal: to demonstrate how capital—especially risk capital—can be moved most effectively into disadvantaged communities. During the first part of 1976 we will complete a new corporate plan aimed at developing improved strategies and programs for building even stronger relationships with the financial, corporate, foundation, and government sectors in order to provide increased income and capital formation opportunities within poor communities.

As a preliminary step towards strengthening our links with local and regional development and financing organizations, OFC has reorganized its operations on a regional basis. We trust that our new plans, the steps taken to implement them, and our commitment to high professional standards will continue to enhance OFC's effectiveness as a vehicle in the area of high risk finance.

David B. Hertz
Chairman of the Board

John G. Gloster
President

Indian fishermen after delivering salmon to the Lummi Indian Fishing Company (LITE/LIFCO) processing plant in Bellingham, Washington.

Los Cinco Apartments, a low-income housing project in Loveland, Colorado.

OFC mission: develop, test, demonstrate

OFC has carried out its objectives primarily through five basic risk-reduction programs: Flexible Guaranties, Local Development Companies, Banking, Real Estate, and Bonding. Under these programs, OFC has used guaranties to:

- Support directly minority and community-owned business ventures of significant scale or impact.
- Assist in financing ventures which are sponsored or supported by regional economic development organizations through the extension of lines of guaranty credit to selected "partner" groups.
- Support expansion of minority businesses in high unemployment areas by inducing two church groups to lend the "local injection matching funds" required for participation in the SBA plant and facilities (LDC 502) program.
- Assist new and existing minority banks to raise capital.
- Increase the availability of equity and mortgage financing to low-income community organizations wishing to undertake significant real estate development projects.
- Strengthen the capability of minority construction firms to acquire bonding needed to secure larger and more profitable construction jobs.

Summary of past year

During the fiscal year ended June 30, 1975, under its risk-reduction programs, OFC generated $11,575,200 in new capital and credit for 25 companies while adding $1,538,493 in new contingent liabilities.

Under its **Direct Flexible Guaranty Program,** OFC assisted six companies in raising $1,025,000 in capital and credit. Contingent liabilities incurred were $439,375.

Among the guaranties:

- a 75% guaranty of a $20,000 line of credit enabled 1,800 small black farmers comprising the Southwest Alabama Farmers Cooperative Association (SWAFCA) to purchase fertilizer and insecticides for the 1975 planting season.
- a 50% guaranty of two loans totaling $115,000 from the Chase Manhattan Bank enabled the Anti-Poverty Action Corporation (ANTPAC) of Rochester, New York, to purchase 80% of the stock of Ebi Champagne Manufacturing, Inc. and to meet the company's need for working capital.
- a guaranty of a $115,000 line of credit enabled New Communities, Inc., a nonprofit development corporation in Georgia, to purchase the fertilizer needed for its 5,000-acre community farming enterprise.

In addition, under its **Flexible Guaranty Partnership Program,** OFC generated $2,933,000 in capital and credit on behalf of eight ventures through its 11 local and regional partners. Contingent liabilities were increased by $497,500. For example:

- working with the National Economic Development Association (NEDA), OFC provided a 50% guaranty of a $200,000 working capital line of credit extended by Hibernia National Bank to the Commerce International Corporation. This New Orleans business firm, operated by a Mexican-American entrepreneur, deals in the import of industrial and agricultural chemicals, lumber and construction supplies, and seeds and grains.
- working with Lummi Indian Tribal Enterprises (LITE), OFC guaranteed the first $75,000 of a $600,000 line of credit provided by the Rainier National Bank (Seattle) to LITE/LIFCO, a company organized to market fish harvested by several native American groups.
- working with the Colorado Economic Development Association (CEDA), OFC partially guaranteed a $200,000 loan backing a letter of credit needed to secure $1,027,000 in mortgage financing for Los Cinco, a low-income housing project in rural Colorado.
- working with the Delta Foundation, OFC guaranties helped secure a $85,000 crop production loan from the First National Bank of Greenville (Mississippi) for the Leflore County Area Cooperative, an 1,800-acre farming enterprise.

OFC Flexible Guaranty Partners

Mexican-American Unity Council (MAUC)
San Antonio, Texas

Mexican American Council for Economic Progress (MACEP)
Austin, Texas

Harlem Commonwealth Council (HCC)
New York, N.Y.

National Economic Development Association (NEDA)
Los Angeles, California (plus 20 other offices in 10 states and Puerto Rico)

Chicago Economic Development Corporation (CEDCO)
Chicago, Illinois

Delta Foundation
Greenville, Mississippi

Colorado Economic Development Association (CEDA)
Denver, Colorado

National Council of LaRaza
Phoenix, Arizona

Home Education Livelihood Program (HELP)
Albuquerque, New Mexico

Southern Cooperative Development Fund, Inc. (SCDF)
Lafayette, Louisiana

Lummi Indian Tribal Enterprises (LITE)
Marietta, Washington

Under its **Local Development Companies Program,** OFC generated $2,456,200 for nine minority businesses in fiscal year 1975. Additional contingent liability accepted was $140,610.

Some examples of the types of businesses assisted under the LDC program are: a theater in Memphis, Tennessee; a microfilm processor in Brooklyn, New York; a funeral home in Augusta, Georgia; and a medical facility in West Louisville, Kentucky.

As a result of the success of this program, a new two-year agreement was signed with the Presbyterian Economic Development Corporation, Inc. (PEDCO), under which OFC's guaranty coverage of local injection loans has been lowered from 75% to 50%. In addition, available PEDCO funds were increased by $300,000, bringing total commitments under the program to $1,050,000. This sum includes $250,000 in funds made available by the Ghetto Loan and Investment Committee (GLIC) of the Protestant Episcopal Church.

OFC's **Banking Program** was established to help strengthen minority and poverty area banks. Since 1970, OFC has participated in financings which have raised $6.5 million in new capital for minority banks. In addition, as of June 30, 1975, OFC deposits in 41 poverty area banks totaled nearly $5 million.

During the past year OFC participated in the $3 million recapitalization of Citizens Trust Bank, Atlanta, one of the nation's oldest black-owned banks. Under this refinancing program, OFC provided a $400,000 guaranty of $550,000 in preferred stock and capital notes purchased by a trust comprised of Georgia banking institutions. In addition, other investors, including the Ford Foundation, MINBANC (an investment company established by the American Bankers Association to provide capital to minority banks), and the Atlanta Life Insurance Company (the nation's second largest black insurance company) invested $2,450,000 through the purchase of capital notes and preferred stock.

During the past year OFC also placed deposits in eight community credit unions and fifteen minority savings and loan associations.

Looking toward future OFC efforts to support minority banks, a Board Committee chaired by James Hall, former Superintendent of Banks for the State of California, was established in early 1975 to explore means of improving coordination among private and public organizations concerned with improving the performance and financial condition of minority banks.

OFC did not participate in any financings under the **Real Estate and Bonding Programs** during the past year. At present, OFC is considering only proposals which present exceptional opportunities to demonstrate replicable approaches to the financing of such activities. Although the adverse impact of the recession on construction and real estate development generally was a factor, the primary impetus for this decision was the recognition that not enough of OFC's past efforts in this field have resulted in significant improvement in the patterns of financing community and minority enterprise in this industry. To help assess the results of its bonding program—and to assist in identifying those approaches which hold the greatest potential for change—OFC commissioned an independent consultant firm to perform an evaluation of the Minority Contractor Bonding Assistance Program. This evaluation, now nearing completion, will be used to help OFC's Board and management define the future directions of this program.

Loss experience

Most guaranties issued by OFC extend beyond a one-year period. Losses incurred, therefore, relate to the cumulative portfolio of investments guaranteed, not just the current year's activities. At the end of its fifth year of operations, on a cumulative basis, OFC's losses totaled $684,245 on investments guaranteed of $8,398,089. Of these losses, $147,045 represent uninsured deposits in Swope Parkway National Bank, currently under FDIC administration, for which there is substantial prospect of recovery. Moreover, a major portion ($422,047) of OFC's losses have occurred within the Bonding and Real Estate programs, reflecting in part the severe dislocation within the national construction industry during the past two years.

Leflore County Area Cooperative in Bolivar and Leflore Counties in Mississippi.

Workers inspect the tomato crop during processing at the Mana Hill Farmers Cooperative in Palmetto, Florida.

Investment highlights

Mana Hill Farmers Cooperative

Four years of planning by several small black farmers in Palmetto, Florida, resulted in the Mana Hill Farmers Cooperative beginning its first season of operation in 1971. The cooperative owns and operates a tomato packing house. Twice each year during the late spring and late fall harvests, the packing house processes, packs, and sells the tomatoes grown by co-op members. Forty local black residents are employed temporarily during these two periods.

The local farmers no longer need to transport their tomatoes over 40 miles to a packing house. More importantly, the co-op brings independence to the members. They now have an assured outlet for their highly perishable crop. They receive a higher financial return on their crop and have been able to increase the number of their acres in cultivation. Current membership is 26 farmers.

The initial growth of the co-op was slow but with the technical, management, and financial assistance of the Southern Cooperative Development Fund (SCDF) the co-op is now flourishing. OFC participated with SCDF in a 50% guaranty of a $30,000 fall season working capital line of credit. This guaranty has now expired without loss.

Outdoor Venture Corporation

Job Start, a community development corporation working in a 10-county area of Appalachian Kentucky, has put social venture capital to work in the Outdoor Venture Corporation. Outdoor Venture is a manufacturer of a quality line of outdoor recreational tents. The company employs 60 people and is in its third successful year of business. Sales for 1975 were $2.5 million. Outdoor Venture's record of reliability in craftsmanship and delivery is the source of a growing reputation as a manufacturer of some of the nation's finest outdoor shelters.

In early 1975, OFC guaranteed $200,000 of a line of credit for Outdoor Venture from the First National Bank of Louisville. During its first two years of operation, Outdoor Venture had been allowed a credit line of 70% of its finished goods and raw materials inventory. The Bank limited this line of credit to a maximum of $720,000. This, together with the company's decision to maintain all of its work force despite a slight decline in sales during the latter part of its second year, presented Outdoor Venture with a short-term cash problem. OFC's guaranty allowed the Bank to lend $920,000 on the inventory (the same amount as if the 70% formula had been followed) and asssisted Outdoor Venture over its temporary difficulty. This guaranty expired without loss in February 1975.

Check out time at Fort Greene Co-op Supermarket, Brooklyn, New York.

Fort Greene—a lesson in participation

Faced with a problem common to low-income communities—high food prices, low quality food, and declining number of supermarkets—the residents of Fort Greene in Brooklyn made a direct attack. They set up their own supermarket.

The August 1974 opening of the Fort Greene Co-op Supermarket was the result of 2½ years of work by many members of the Fort Greene Community. A Steering Committee of Fort Greene citizens took a survey in the community which showed overwhelming support for the project, and resulted in the establishment of the Co-op.

A year was spent searching for a proper site. Then in October, 1973, A & P decided to close its Fort Greene store—situated in a good location, within walking distance of a large low-income housing development. By the beginning of 1974, a promotion committee was set up to sell shares in the cooperative at a cost of $5 per share. In less than five months the co-op had 800 members.

At that point the only thing missing for a successful operation was adequate financing. The Fort Greene Board prepared a loan proposal and OFC agreed to secure 50% of the loan. As a result, Chase Manhattan Bank granted the requested loan of $100,000.

The Fort Greene Co-op Supermarket offers quality food at competitive prices to the community. It employs 34 full-time and 30 part-time workers from the community. This partnership between many different organizations and the Fort Greene community serves as a model for other cooperatives in inner-city areas.

New ventures

As the fiscal year ended, OFC had nearly completed the process of organizing and raising capital for two new companies.

The Southern Agriculture Corporation (SAC) has as its purpose the development of profitable minority and community-owned agricultural operations in the Southeastern United States. Based upon preliminary plans developed by OFC in cooperation with, and on behalf of, nine rural development organizations located in the Southern U.S., OFC has obtained preliminary capital commitments totaling $1,750,000 from the Cooperative Assistance Fund and the Presbyterian Economic Development Corporation, Inc.

SAC is chartered as a for-profit company which will be owned and controlled largely by ten Southern economic development organizations which have served as its prime sponsors and common stock investors. These co-sponsors are: Virginia Community Development Organization, The Delta Foundation, Emergency Land Fund, Southeast Alabama Self-Help Association, Penn Community Services, Southern Development Foundation, Southern Cooperative Development Fund, Rural Advancement Fund, New Communities, Inc. and The Federation of Southern Cooperatives.

OFC, through a foundation grant, has already made a $150,000 investment in the company to finance start-up costs including the completion of final operating plans and strategies, and expects to make an additional $500,000 investment upon the completion of final planning. A highly experienced chief executive officer assumed operational management of the company in September 1975.

Syndicated Communications (SYNCOM), a for-profit investment company, is planned as a vehicle for aiding minority and community groups to acquire and develop broadcast properties. OFC has recently completed the major portion of development work on SYNCOM in cooperation with several minority and community economic development organizations, and has received preliminary commitments for $2 million in capital.

In addition, two new ventures are in the planning stage.

The National Equity Partnership—a proposed $20 million venture capital limited partnership designed to provide risk capital to high potential ventures in a fashion which will offer capital protection to investors as well as increased ownership opportunities for minority and community organizations.

Foundation/Industry Consortium—a project to increase the access of minority and community economic development organizations to larger and more profitable venture opportunities through the cooperative efforts of (1) community economic development organizations, (2) business and financial institutions, and (3) private foundations. Initially, this effort will center on facilitating the acquisition of businesses which meet certain tests of size, location and profitability, and on venture opportunities in the health care field. Private sector support for this program to date has totaled over $80,000.

Cooperative Assistance Fund

In September 1974, OFC entered into a contract to manage the Cooperative Assistance Fund (CAF), a tax-exempt corporation established by nine foundations to administer program-related investments. CAF, with assets totaling $3.6 million, provides risk capital to minority and community businesses and economic development ventures.

OFC's contract calls for the performance of all functions normally carried out by the management of a risk capital company, including analysis of investment proposals, presentation of recommendations regarding investment decisions and the management of CAF's loan and investment portfolio.

Investors in CAF include the Field, Ford, New World, New York, Norman, Ellis L. Phillips, and Taconic Foundations, as well as the Sachem Fund. In addition, the Rockefeller Brothers Fund has recently become CAF's newest investment member.

Since the initiation of its management contract with OFC, CAF has made investment commitments totaling $1,985,000 for five ventures including two radio stations, a rural housing development company, and the Southern Agriculture Corporation and Syndicated Communications projects previously described.

A separate report for the Cooperative Assistance Fund is available upon request.

An investment by CAF assisted Dudley Communications, a minority company which owns radio station KYAC AM/FM, to upgrade and extend its AM coverage in the Seattle-Tacoma area.

ARTHUR ANDERSEN & CO.

1666 K STREET, N.W.
WASHINGTON, D.C. 20006
(202) 785-9510

August 13, 1975

To the Board of Governors of
Opportunity Funding Corporation:

We have examined the statement of assets, liabilities and fund balances of OPPORTUNITY FUNDING CORPORATION (a Delaware nonprofit corporation) as of June 30, 1975, and June 30, 1974, and the related statement of changes in fund balances for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the assets, liabilities and fund balances of Opportunity Funding Corporation as of June 30, 1975, and June 30, 1974, and the changes in fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Financial Statements

Opportunity Funding Corporation

Statement of Assets, Liabilities and Fund Balances As of June 30, 1975 and 1974

(Note 1)

Assets

	1975	1974
Cash (Note 2)	$ 257,738	$ 88,417
Accrued interest receivable	60,259	121,687
Miscellaneous accounts receivable and prepaid expenses	2,923	3,279
	320,920	213,383
Program fund investments (Note 2):		
Demand deposits	92,783	188,612
Certificates of deposit	6,687,638	7,498,500
Savings accounts	895,062	554,538
	7,675,483	8,241,650
Program note and claim receivables, net of $222,045 reserve for possible losses (Note 3)	75,000	—
Furniture and equipment (Note 4)	—	—
Total assets	$8,071,403	$8,455,033

Liabilities and Fund Balances

	1975	1974
Accounts payable and accrued expenses	$ 75,062	$ 29,428
Reserve for possible program losses (Note 1)	2,338,910	1,563,135
Commitments (Notes 1 and 5)		
Fund balances	5,657,431	6,862,470
Total liabilities and fund balances	$8,071,403	$8,455,033

The accompanying notes to financial statements are an integral part of this statement.

Statement of Changes in Fund Balances
For the Years Ended June 30, 1975 and 1974
(Note 1)

	1975	1974
Beginning balances	$6,862,470	$6,721,740
Add:		
Community Services Administration grants	—	999,888
Interest earned on deposits	558,647	427,508
Commissions and guaranty fees	43,679	20,277
Rockefeller Brothers Fund grant	200,000	5,500
Other private grants	24,900	—
Management fee—Cooperative Assistance Fund	54,167	—
Total additions	881,393	1,453,173
Deduct:		
Administrative costs—		
Salaries, wages and fringe benefits	442,935	338,346
Consultants' and contract services	142,418	67,774
Travel and meeting costs	44,867	36,403
Space cost and rental (Note 5)	42,404	22,341
Consumable supplies	6,340	4,898
Rental, lease and purchase of equipment (Note 4)	10,733	7,868
Other costs	38,244	24,990
Total administrative costs	727,941	502,620
Provision for possible program losses—		
Flexible guaranty program	399,088	118,000
Direct deposit program	340,330	2,880
Surety bonding program	280,677	171,200
Capital support program	133,333	—
Local development company/SBA 502 program	107,277	130,851
Real estate program	86,436	386,892
Total provision for possible program losses	1,347,141	809,823
Other—		
Bank management development program expense	5,000	—
Miscellaneous program - related expenses	6,350	—
Total other deductions	11,350	—
Total deductions	2,086,432	1,312,443
Change in fund balances	(1,205,039)	140,730
Ending balances	$5,657,431	$6,862,470

The accompanying notes to financial statements are an integral part of this statement.

Notes To Financial Statements

June 30, 1975 and June 30, 1974

(1) Nature of Operations

Opportunity Funding Corporation (the "Corporation") was incorporated on June 22, 1970, as a nonstock organization to acquire by grant, gift and otherwise funds to be applied for programs designed to provide models for economic development for low income areas and people in the United States. These programs may be in the nature of experimental or demonstration projects designed to test methods of achieving economic growth in low income communities.

The Corporation is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3).

The Corporation's activities have been funded primarily by two grants from the Community Services Administration ("CSA"), formerly the Office of Economic Opportunity: a Pilot Grant of $4,178,000 and a Special Impact Grant of $3,900,000. The two grants were extended to June 30, 1977, with an additional $738,000 for administrative expenses for the two years ending June 30, 1977. Administrative expenses for the year ended June 30, 1975, were funded from a $997,751 grant for the two years ended that date and a $54,167 management fee received from the Cooperative Assistance Fund ("CAF").

Under an August 1974 agreement with CAF, the Corporation will manage and administer CAF's investment activities for one year. CAF has agreed to pay $65,000 for the Corporation's services. CAF, like the Corporation, is organized for the purpose of investing funds in minority-owned and poverty-area enterprises.

A Special Impact CSA Grant for $46,000 was approved for the period April 1, 1974, to July 31, 1974 (subsequently extended to June 30, 1977), to research the need for a national organization or system created to provide long-term investment capital to economic development and business ventures sponsored or owned by low income and minority groups.

In addition to the CSA grants mentioned above, the Corporation received the following grants during the year ended June 30, 1975.

(a) $150,000 from the Rockefeller Brothers Fund for the design and implementation of a model regional agricultural development corporation in the South. The grant has no specified duration.

(b) $50,000 from the Rockefeller Brothers Fund for coordinating work among foundations, corporations and economic development groups on behalf of minority economic development. The grant is designated for the first year of a planned two-year demonstration project.

(c) $12,500 from the Delta Foundation for planning and support of the model regional agricultural development corporation in the South. The grant has no specified duration.

(d) $9,900 from The Center for Community Change for support of the model regional agricultural development corporation in the South. The grant was for the three-month period ended September 30, 1974.

(e) $2,500 from the Cummins Engine Foundation for support of the coordinating work among foundations, corporations and economic development groups on behalf of minority economic development. The grant has no specified duration.

The use of funds provided by the CSA grants is restricted by the general and special grant conditions attached to each grant. The use of the special impact program funds (CSA program account #63) is limited to geographical areas defined by CSA as communities or neighborhoods within urban areas having especially large concentrations of low income persons and rural areas having substantial emigration to eligible urban areas. A special condition of this program is that there

must be a non-Federal share contribution of ten percent of the grant amount. The Corporation has met this non-Federal share requirement by the participation of the Presbyterian Economic Development Corporation, Inc. in the Corporation's direct deposit program.

Under the Corporation's accounting policies, program commitments do not in themselves affect fund balances. Fund balances are reduced when the Corporation establishes reserves to provide for possible losses resulting from such commitments and when administrative expenses are incurred.

As of June 30, 1975, the Corporation has evaluated its program fund investments and other program commitments in force and has provided a reserve of $2,338,910 ($1,563,135 at June 30, 1974), against deposits of $5,252,000 in poverty area community banks and guarantees of $3,532,000, which, in the opinion of management, is adequate to cover possible program losses. Charges against the reserve amounted to $499,000 for the year ended June 30, 1975 ($100,000 for the year ended June 30, 1974).

The following table summarizes the fund balances for each program as of June 30, 1975.

Program	Grant Balance: CSA Pilot Program Account	Grant Balance: CSA Special Impact Program Account	Total
Administrative fund (deficit)	$ (92,934)	$ —	$ (92,934)
Direct deposit program fund	52,047	14,683	66,730
Capital support program fund	154,600	4,667	159,267
Secondary marketing program fund	325,000	295,000	620,000
Bank management development program fund	146,456	146,456	292,912
Surety bonding program fund	124,898	—	124,898
Flexible guaranty program fund	739,687	1,069,500	1,809,187
Real estate program fund	226,332	800,340	1,026,672
Local development company/SBA 502 program fund	176,362	159,310	335,672
Program-related expense fund	622,662	496,207	1,118,869
CSA research grant	—	20,829	20,829
Total CSA grants	$2,475,110	$3,006,992	5,482,102
Private grants			175,329
Total fund balances			$5,657,431

The Corporation's CSA grants are subject to audit by the United States Government. The Corporation believes that adjustments, if any, as a result of such audits will not have a material effect on the Corporation's financial statements.

(2) Restrictions on Cash and Program Fund Investments

The use of cash and program fund investments is restricted to those expenditures authorized by the terms of the CSA grants. If, upon termination of the present CSA grants, there are any grant funds remaining after appropriate reserves for liabilities and anticipated expenditures, CSA may require that such funds be returned to CSA.

Program fund investments are resources against which claims may be made in the event of a default on any project which the Corporation has assisted. Program commitments and the related reserves are discussed in Note 1.

In July 1971, the Corporation entered into an agreement with a consortium of banks in Boston, Massachusetts. In connection with this agreement, the Corporation has placed certificates of deposit amounting to $400,000 in a custodial account for the duration of the guaranty, which expires in July 1978. The banks have no security interest in the $400,000. However, interest earned by the Corporation on $300,000 of the above certificates of deposit is to be remitted semiannually on September 1 and March 1 to a second custodial account and is pledged until the guaranty expires.

The Corporation is required to maintain minimum deposits of at least $217,000 in certain banks to secure letters of credit issued by those banks.

(3) Program Note and Claim Receivables

Program note and claim receivables consist of the following at June 30, 1975.

(a) $150,000, 7% note receivable due March 1980, from New Mexico Producer and Marketing Cooperative, a flexible guaranty project which defaulted. The note is secured by a first mortgage on land and improvements owned by New Mexico Producer and Marketing Cooperative.

(b) $147,045 claim against the receivership for Swope Parkway National Bank, a direct deposit project, for uninsured deposits lost upon the Bank's insolvency.

As of June 30, 1975, the Corporation has evaluated the above program receivables and has provided a reserve of $222,045 which, in the opinion of management, is adequate to cover possible losses.

(4) Furniture and Equipment

Furniture and equipment purchased by the Corporation was acquired from general program expenditures under CSA grants.

Under the accounting prescribed by CSA, furniture and equipment purchases are charged directly to expense at the time the cost is incurred. The cost of certain nonexpendable furniture and equipment is recorded as an asset with an offsetting valuation reserve. The effect of this treatment is to expense all furniture and equipment as it is acquired. The cumulative costs, and the corresponding valuation reserves, of nonexpendable furniture and equipment were $27,312 and $21,996 at June 30, 1975 and 1974, respectively.

Residual title to furniture and equipment acquired from CSA grant funds rests with CSA, and CSA controls the disposition thereof at the termination of the grants.

(5) Commitments

The Corporation has entered into two lease agreements for office space expiring in January and November 1979. Annual rental payments will approximate $43,700 for each of the next three years, $30,400 in the fourth year and $6,100 in the fifth year. Rental expense under these agreements and reflected in the accompanying financial statements was $37,553 and $18,302 for the years ended June 30, 1975 and 1974, respectively.

Board of Governors

David B. Hertz, Chairman
David Hertz, a Director of McKinsey & Co., Inc., has been Chairman of the Board of Governors of Opportunity Funding Corporation since its inception in 1970. Dr. Hertz is a former President and Chairman of the Institute of Management Sciences.

Theodore D. Brown
Theodore Brown joined the OFC Board in 1973. He is President of the First National Bank of Denver. Mr. Brown is a past President of the Colorado Bankers Association and has been a Director of the Denver branch of the Federal Reserve Bank of Kansas City.

Robert O. Dehlendorf II
Robert Dehlendorf, one of the original members of the OFC Board of Governors, is Senior Vice President, Corporate Finance, of Warburg, Paribas, Becker, Inc., located in San Francisco.

Nathan T. Garrett
Nathan Garrett, a member of the OFC Board since 1972, is President of Garrett, Sullivan & Co., P.A., C.P.A.'s, of Durham, North Carolina. He is a founder and former Executive Director of the Foundation for Community Development in Durham.

James M. Hall
James Hall, one of the original nine OFC Board members and Chairman of OFC's Banking Committee, is Senior Vice President for Corporate Affairs of The TI Corporation, located in Los Angeles. He previously served as Secretary of Business and Transportation and as Secretary of Human Relations for the State of California. Mr. Hall was also the California Superintendent of Banks from 1967 to 1969.

Jesse Hill, Jr.
Jesse Hill was recently elected to the OFC Board of Governors and was appointed Chairman of OFC's Audit Committee. Mr. Hill is President and Chief Executive Officer of Atlanta Life Insurance Company. He is a member of the Georgia State Board of Regents and is slated to become the President-Elect of the Atlanta Chamber of Commerce in 1976. Mr. Hill is a member of the Board of Directors of Delta Air Lines.

James A. Joseph
James Joseph is Vice President for Corporate Action, Cummins Engine Company, and President of The Cummins Engine Foundation. He joined the Board of OFC in 1974.

C. Robert Kemp
Robert Kemp, a member of the OFC Board since 1974, is Chairman of OFC's Planning Committee. Mr. Kemp is President of the Economic Resources Corporation of Los Angeles. He also serves as Director of the Minority Enterprise Coalition of Los Angeles.

Carol M. Khosrovi
Carol Khosrovi, a member of the OFC Board of Governors since 1973, is Chairperson of OFC's Nominating Committee. She is a Principal of Planning Research Consultants, Inc., of Berkeley, California, and Chicago, Illinois. Ms. Khosrovi previously served in several positions with the Office of Economic Opportunity including Director of the Office of Program Development and Director of the VISTA program.

Jesse Lay
Jesse Lay joined the OFC Board of Governors in 1972. He is the Sales Manager of Riverview Mobile Homes in Barbourville, Kentucky. Dr. Lay is a former Superintendent of Schools in Knox County. He is active in many community civic organizations including the Knox County Economic Council.

John D. Mabie
John Mabie, one of the nine original OFC Board members, is Chairman of OFC's Finance and Investment Committee. Mr. Mabie is President of Mid-Continent Capital, Inc. of Chicago.

Alex Mercure
Alex Mercure, one of the original Board members, was recently elected Vice Chairman of OFC's Board of Governors. He is Vice President for Regional & Community Affairs at the University of New Mexico in Albuquerque. Mr. Mercure is also Chairman of the Board of Siete Del Norte, a community development corporation in Espanola, New Mexico.

Walter J. McNerney
Walter McNerney is President of the Blue Cross Association, headquartered in Chicago. He joined the OFC Board in 1974. Mr. McNerney has written extensively on the subject of health care, and is active in many organizations in the health field.

Thomas F. Miller
Thomas Miller was recently elected to the OFC Board of Governors. He is currently President of Job Start Corporation, a community development corporation in southeastern Kentucky. Mr. Miller, a Certified Public Accountant, is also a member of the Board of Directors of the National Congress for Community Economic Development.

Joseph H. Price
Joseph Price, a newly elected member of the OFC Board of Governors, is a Partner in the law firm of Leva, Hawes, Symington, Martin & Oppenheimer. Mr. Price is a former Vice President for Insurance of the Overseas Private Investment Corporation, and was also a member of OPIC's Investment Committee.

Theodore S. Weber, Jr.
Theodore Weber, Senior Vice President for Administration of McGraw-Hill, Inc., joined the OFC Board of Directors in 1974. Mr. Weber is also a member of the Board of Directors of the Public Affairs Council.

OFC's Management Staff

John G. Gloster, President
Paul L. Pryde, Jr., Senior Vice President
Arnold Nachmanoff, Vice President for Investment Management
Mildred R. Dickerson, Treasurer
James D. McWilliams, Secretary and General Counsel
Rochelle M. Fashaw, Director of Communications

Regional Investment Managers

Joseph H. Chavez, Western Region
R. Allan Kozu, Northern Region
David L. Jameson, Southern Region

Northern Region	Southern Region	Western Region
Connecticut	Alabama	Alaska
Illinois	Arkansas	Arizona
Indiana	Delaware	California
Iowa	District of Columbia	Colorado
Kansas	Florida	Hawaii
Maine	Georgia	Idaho
Massachusetts	Kentucky	Montana
Michigan	Louisiana	Nevada
Minnesota	Maryland	New Mexico
Nebraska	Mississippi	North Dakota
New Hampshire	Missouri	Oregon
New Jersey	North Carolina	South Dakota
New York	Puerto Rico	Texas
Ohio	South Carolina	Utah
Oklahoma	Tennessee	Washington
Pennsylvania	Virgin Islands	Wyoming
Rhode Island	Virginia	
Vermont	West Virginia	
Wisconsin		

Breed, Abbot & Morgan
New York, N.Y.
Counsel

Arthur Andersen & Co.
Washington, D.C.
Independent Public Accountants

Partial listing of private companies and financial institutions participating in OFC ventures

Air Products & Chemicals
Pensacola, Florida

American National Bank & Trust Company of Chicago
Chicago, Illinois

American Security Bank
Washington, D.C.

Bank of America
San Francisco, California

Bankers Trust Company
New York, N.Y.

Board of Pensions of the United Presbyterian Church in the United States of America
New York, N.Y.

Broadway United Church
New York, N.Y.

Chase Manhattan Bank
New York, N.Y.

Chemical Bank
New York, N.Y.

Chicago Sun-Times
Chicago, Illinois

Church Pension Fund
New York, N.Y.

Citizens Bank of Jackson
Jackson, Kentucky

Citizens and Southern National Bank
Atlanta, Georgia

Citizens Trust Bank
Atlanta, Georgia

Colorado National Bank
Denver, Colorado

Douglass State Bank
Kansas City, Kansas

Electrical Supply, Inc.
High Point, North Carolina

Emergency Land Fund
Atlanta, Georgia

Fidelity and Deposit Company of Maryland
Baltimore, Maryland

First National Bank of Boston
Boston, Massachusetts

First National Bank of Chicago
Chicago, Illinois

First National Bank of Denver
Denver, Colorado

First National Bank of Greenville
Greenville, Mississippi

First National Bank of Louisville
Louisville, Kentucky

First National City Bank
New York, N.Y.

First Pennsylvania Bank
Philadelphia, Pennsylvania

First State Bank
Austin, Texas

Francis Clark Contractor
Seattle, Washington

Ghetto Loan & Investment Committee of the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States
New York, N.Y.

Guaranty National Bank
Corpus Christi, Texas

Hibernia National Bank
New Orleans, Louisiana

Indiana National Bank
Indianapolis, Indiana

Irving Trust Company
New York, N.Y.

Manatee National Bank
Bradenton, Florida

Morgan Guaranty Trust Company
New York, N.Y.

National Sharecroppers Fund
New York, N.Y.

National Shawmut Bank
Boston, Massachusetts

New England Merchants National Bank
Boston, Massachusetts

North Carolina National Bank
Charlotte, North Carolina

Omaha National Bank
Omaha, Nebraska

Presbyterian Economic Development Corporation, Inc.
New York, N.Y.

Rainier National Bank
Seattle, Washington

Reformed Church in America
New York, N.Y.

Security National Bank
San Antonio, Texas

State Street Bank & Trust Company
Boston, Massachusetts

Swift & Company
Montgomery, Alabama

Travelers Indemnity Company
Hartford, Connecticut

USS Agri-Chemicals
Atlanta, Georgia

United California Bank
San Francisco, California

United Christian Missionary Society
Indianapolis, Indiana

Valley National Bank of Espanola
Espanola, New Mexico

Opportunity Funding Corporation

Suite 701, 2021 K Street N.W., Washington, D.C. 20006, 202/833-9580

Manager of the Cooperative Assistance Fund, 202/833-8543

Urban Policy

Art – very interesting. Item 6 is something we should discuss, informally, soon with the NAACP. Jim

THE WHITE HOUSE

WASHINGTON

April 23, 1976

MEMORANDUM FOR: JIM CANNON
ART QUERN
ART FLETCHER
LYNN MAY
ALAN MOORE

FROM: STEVE McCONAHEY
PAT DELANEY

SUBJECT: Materials Relating to Annexation

We have reviewed the materials on the question of annexation and offer this memorandum to summarize the thoughts of ACIR and Brookings. Several factors stand out as important:

1. The rationale for annexations tend to be (a) to gain efficiencies of service, or (b) to spread the financial burden and gain property tax revenues. Some minority groups have claimed that annexation has taken place in order to dilute the black vote.

2. According to Richard Nathan at Brookings, the ability or inability of a municipality to annex has been a critical factor in determining the financial health of that jurisdiction. Those cities who have not been able to "spread" the financial burden of city services to surrounding areas have found financially hard times.

3. The annexation process takes several forms depending upon State law. Legislative, referendum, judicial and quasi-legislative and administrative approaches exist throughout the country.

4. Factors in the use of annexation:

   A. Size of Cities

   Medium sized cities tend to use this tactic more than larger cities. Part of this can be explained by the fact that larger cities are

more established and tend to be surrounded by other strong municipalities, and by the fact that there are strong social, racial and other feelings that tend to polarize these jurisdictions.

B. Nature of Local Government

In cases where local towns and townships play a strong role in local government and are in many cases immune from annexation, the annexation tactic does not occur as frequently as it does in other areas of the country such as the South or the West where townships and other small jurisdictions are not as prevalent.

C. Social Factors

The greater the social, economic and racial similarity of central cities to the surrounding areas, the more likely annexation will occur. Also, central cities operating under the manager form of government tend to use the annexation tactic more than non-manager cities.

5. Annexation is more likely to occur in areas that have been most recently developed. Not only is there more inertia for an agressive city policy, but there is less opposition in terms of existing development and existing political powers to prevent cities from expanding their boundaries.

6. One of the major reasons that annexation has slowed in recent years has been the voting rights issue. The Richmond, Virginia case is based on the charge that annexation occurred to dilute the impact of the black vote in city-wide elections. As a result of these cases, some states have placed moritoriums on annexation until these trial court cases can be resolved.

Out of all of this, I think it is clear that annexation is a state/local issue, one that is fraught with social, economic and racial overtones, but one that has played a critical role in the financial viability of cities.

Urban Policy

THE WHITE HOUSE

WASHINGTON

April 27, 1976

MEMORANDUM FOR: THE URBAN TASK FORCE

FROM: STEVE McCONAHEY SCM

SUBJECT: U.S. Conference of Mayors Proposal

Sometime back, I circulated for your comments a copy of a proposal developed by the USCM to assess the role of private industry in seeking solutions to urban problems. I would appreciate your providing me with your comments on this proposal and indicating to me whether we should encourage it and/or help support it.

attached

GERALD R. FORD LIBRARY

THE WHITE HOUSE

WASHINGTON

April 5, 1976

MEMORANDUM FOR: JIM CANNON
ART QUERN
PAT DELANEY
ART FLETCHER
LYNN MAY
ALLEN MOORE

FROM: STEVE McCONAHEY SM

SUBJECT: Urban Problems

Attached is a copy of a proposed study to be conducted by the U.S. Conference of Mayors to assess the potential role for private sector organizations in helping to solve urban problems. This is a tentative study statement and will be used by the Conference to discuss possible funding with HUD and ERDA.

While this study outline has some imperfections in it, I think it is relevant to our discussion of a week or so ago when we tried to identify a strategy for our urban centers. We specifically discussed the role of the private sector and the need to identify what it is that makes certain projects successful and others unsuccessful. This study may well be one subject of further discussion by our group at the next meeting.

Attachment

TELEPHONE: 293-7330
(AREA CODE 202)

UNITED STATES CONFERENCE OF MAYORS

1620 EYE STREET, NORTHWEST
WASHINGTON, D. C. 20006

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Executive Director:
JOHN J. GUNTHER

OVERCOMING PROBLEMS OF THE CITIES THROUGH JOINT PUBLIC AND PRIVATE SECTOR EFFORTS

This memorandum outlines a project the U.S. Conference of Mayors proposes to conduct to identify and document practical ways in which the private sector can work with or on behalf of local governments in resolving some of the major problems they face. Below we briefly summarize: (1) the scope of proposed project and our planned approach to carrying it out; (2) the timing and estimated costs of the project; and (3) how we would organize for the project.

PROJECT SCOPE AND OUR APPROACH

Much has been said and written in recent years and months about the serious financial, administrative, and program problems affecting many of the nation's cities and the need to come to grips with these problems quickly and effectively. It has been suggested frequently that the public and private sectors work together in a joint attempt to resolve - or at least to ameliorate - the problems. At least three conditions have prompted these suggestions: (1) many cities do not have the internal capacity to successfully overcome the problems on their own; (2) direct Federal and state assistance to the cities - through whatever

funding mechanisms - will most likely not be sufficient to their needs over the long term; and (3) the private sector has a clear and substantial vested interest in the general stability and overall economic health and welfare of the cities.

The concept of cooperative efforts by local governments and the private sector to overcome the major problems of cities is, we are convinced, rich with potential. However, before the extent of that potential can be accurately determined and steps taken to fully realize it, it is necessary to answer such fundamental questions as:

- What, in practical terms, can the private sector realistically do to aid the cities in overcoming their problems?
- What incentives must be provided to gain the ongoing cooperation and commitment of the private sector?
- How can a close working relationship between a local government and the business community best be established and maintained?
- How can successful joint-sector approaches used in one city be transferred to and adapted for use by another?
- What, if any, is an appropriate role for the Federal Government and state governments in support of joint sector efforts?

There is considerable demonstrated interest and willingness on the part of both the public and private sectors to work together in addressing the problems of cities. However, there

has as yet been no concerted attempt, on more than a very localized basis, to move beyond the expression of good intentions and seek definitive answers to these important questions - answers that would provide a clear understanding of what is possible and practical, and show the direction needed to make it a reality. The project we propose would provide these answers for purposes of general application in the nation's cities.

Project Scope

To maximize the opportunity to produce practical and useful results in a reasonable period of time and to ensure its overall manageability, the proposed project would:

- Be focused explicitly on those problem areas facing cities where the utilization of traditional private sector skills, techniques, approaches, and resources would likely be effective. To this end, the three principal areas proposed for study are: (1) the overall effectiveness and efficiency of local government management and operations - to include such aspects as organization, management support systems, resource planning and management, service level determination, and staff productivity; (2) the physical development of the city; and (3) the state of the local economic base - e.g., the adequacy of the city's business mix, tax base, and employment opportunities.

- Be concentrated principally on cities with populations exceeding 50,000. Although we fully expect the results of this project to be useful to smaller cities, the decision to work primarily with larger cities during the project is based on two major considerations: (1) it is in these cities that the most serious visible problems are found; and (2) most businesses with resources sufficient to aid the cities will also be found in these locations.
- Consider the role that could be played in joint-sector efforts by the full range of possible participants. While it is clear that the ultimate concern of the project is to determine ways to resolve local-level problems, our intention is to go well beyond the mere consideration of what a specific city government and the private sector in that locality can do together. That is, we intend to seek ways in which public and private sector "units" at all levels could contribute to the resolution of a city's problems. Thus, in the public sector, we would consider what roles would be appropriate for local, state, and Federal Government units, as well as for regional, state, and national associations that represent the cities. Likewise, in the private sector, we would give considerable attention not only to the local private sector but also to the role that could be played by the corporate giants and by business associations at the local, state, and national levels.

Project Approach

We would conduct the proposed project in three phases. The first of these is essential, the latter two are optional.

The objective of Phase I would be to provide answers to the fundamental questions raised earlier in such a way that joint-sector efforts with a high probability of success could and would be developed and initiated throughout the country. To accomplish this objective, we would:

- Identify and catalogue - without initial limitation - the types of actions that could possibly be taken by the private sector in cooperation with the public sector to effectively address the three selected problem areas
- Assess and evaluate each type of action on the basis of its: (a) potential to significantly impact on one or more problem areas in a reasonable period of time; and (b) general applicability and/or transferability
- Select those joint-sector actions having the best promise and identify factors likely to inhibit their broad acceptance and implementation - e.g., the political ramifications of the action or, the reluctance of the private sector to absorb the costs that would be necessary to implement it
- Determine, where practical/necessary, appropriate ways in which inhibiting factors could be overcome - e.g., by state governments and/or the Federal Government providing tax incentives to companies to locate new manufacturing facilities in cities

- Document our findings, conclusions, and recommendations for distribution to prospective public and private sector participants in joint-sector efforts*. This documentation would include comprehensive discussion of: (a) the types of joint-sector actions that are appropriate to specific problems; (b) the level at which specific actions should be carried out - e.g., local, national; (c) the steps necessary to organize for and implement a particular type of action; (d) how to establish the mechanisms to transfer a successful approach from one locality to another; (e) policies in need of adoption by the states and the Federal Government to support and facilitate joint-sector activity; and (f) the appropriate role of public and private sector associations.

To gather the information and data essential to the performance of these Phase I tasks, we would visit a minimum of 30 cities and spend at least a week holding extensive discussions with leading public and private sector officials about: (1) the types of city problems they believed could be jointly attacked; (2) the extent of their willingness or reluctance to participate in joint-sector efforts; and (3) their previous experiences with such efforts. Additionally, we would interview or survey by questionnaire - on the same subject matter -

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*Because important information that could be used at the local level could be expected to become available throughout this phase, we would make this information generally available as early as possible rather than waiting until the end of the phase to provide it.

the mayors of all cities with populations in excess of 50,000, the chief executives of the country's 1,000 largest companies, and the heads of major public and private sector associations*. We would also analyze well-known efforts involving the private sector in addressing the problems of a city (e.g., the Hartford Process) to document how the effort was/is put together and to identify the factors responsible for its success or failure. Finally, we would spend considerable time with state and Federal officials discussing their current and potential roles with regard to joint-sector activities.

With the completion of Phase I, a number of joint-sector approaches to solving city problems would have been generated but some of these approaches would not have been tested. Thus, even though the project could end with the conclusion of Phase I, an option would be to initiate a Phase II to test some of the more innovative joint-sector approaches through demonstrations in selected cities. Phase III would overlap this second phase and principally involve an ongoing evaluation of the demonstrations and the development of transfer mechanisms and promotional programs to encourage the types of approaches being tested.

PROJECT
TIMING AND COSTS

We would complete Phase I within six months of the project's initiation. Should a decision be reached to proceed with Phases II and III, we estimate that they would run concurrently for an additional 18 months.

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* A number of these individuals would be seen in the course of our visits to the cities selected for extensive coverage.

Because Phases II and III are not essential to the main thrust of the project, we have developed cost estimates only for Phase I. We would plan to devote some 10,240 professional man-hours to this first phase. Our estimate is that the costs for this level of effort and the accompanying expenses would not exceed $690,000.

PROJECT ORGANIZATION

The project that has been outlined in this document would be conducted by the U.S. Conference of Mayors. However, we would seek the active and continued involvement and participation of key representatives of both the public and private sectors in all aspects of the project. To facilitate this, we would establish an Advisory Committee of public and private sector leaders to provide comment and overall guidance to the direction of the project. While we have not identified specific members of the Advisory Committee, we would seek representation from among mayors, the chief executives of major corporations, representatives of other public interest groups and of such private organizations as the Business Roundtable and the U.S. Chamber of Commerce.

McKinsey & Company, Inc. - an international management consulting firm with extensive experience in both the public and private sectors, as well as with joint-sector efforts - would assist us throughout the project.

* * *

This memorandum has been prepared only for the purpose of providing a basis for discussion about an important and timely

project we would like to carry out. As such, it only summarizes the effort and, therefore, should not be viewed as a formal proposal or grant request. We would, of course, be willing to prepare a more detailed document at such time as that would be appropriate.

PROPOSED PHASE I BUDGET

OVERCOMING PROBLEMS OF THE CITIES THROUGH
JOINT PUBLIC AND PRIVATE SECTOR EFFORTS

SALARIES			
Program Management (195 hrs. @ 18.97)		3,699	
Sr. Staff Associate (960 hrs. @ 12.47)		11,971	
Two Staff Associates III (1285 hrs. @ 10.31)		13,248	
Clerical Support (960 hrs. @ 4.82)		4,627	33,545
Benefits @ 25% of 33,545			8,386
Overhead @ 22% of 41,931			9,225
CONSULTANTS			
Includes travel and all related expenses			527,000
TRAVEL			
Staff:			
30 trips x 232	6,960		
Per Diem - 30 trips x 5 days x 35	5,250	12,210	
Advisory Council Members:			
20 trips x 232	4,640		
Per Diem -10 members x 2 trips x 2 days x 35	1,400	6,040	18,250
OTHER DIRECT COSTS			
Part Time Help $50 x 6 mos.		300	
Xerox $100 x 6 mos.		600	
Postage $ 200 x 6 mos.		1,200	
Office Supplies $60 x 6 mos.		360	
Rent - 1.33 staff x 125 sq.ft. x $9 x 1/2		748	
Telephone (Long Dist.-Non Watts) $50 x 6 mos.		300	
Dues & Subscriptions		300	
Mtgs.-Information Dissemination		300	
Printing-Survey Materials		3,000	7,108
G & A @ 13.6%			82,078
		TOTAL	685,592

THE WHITE HOUSE
WASHINGTON 4/28/76

TO: JIM CANNON

FROM: STEVE McCONAHEY

SUBJECT: Urban Task Force

The attached material is FYI.

generation are passed on to the next and then to the next and so on. In this regard, one could say that you have been involved in a positive domino effect."

To say the least, it's been a "Unique Career Advancement Program."

JUDGE WILLIAM MILLER

Mr. BAKER. Mr. President, I was saddened to hear yesterday that the Nation has lost one of its finest and most highly respected jurists, Judge William E. Miller of the U.S. Sixth Circuit Court of Appeals, who died Tuesday in Cincinnati.

Prior to his appointment to the circuit court in 1970, Judge Miller served from 1955 on the U.S. District Court for the Middle District of Tennessee, and as chief judge of that court from 1961 until 1970. He was a graduate of the University of Tennessee and the School of Law of Yale University. For many years he practiced law in his native east Tennessee and was a member of the bar of Johnson City.

Judge Miller's distinguished service as a Federal judge cannot be accorded justice in the course of these brief remarks because in addition to the many learned decisions that he authored in over 21 years of service on the Federal bench, he was also responsible for a number of landmark and historic decisions that have changed the course of Federal jurisprudence and altered for the better the face of the Nation itself.

In the first, he authored the plan that first truly implemented the principle of "one man, one vote" that is the essence of our democratic system. In the second, he developed the "stairstep" school desegregation plan which without the tragedy and violence that still haunts other areas of the country today, led the South in correcting the inequities of racially segregated schools. In addition, Judge Miller presided over the trial of Teamster President Jimmy Hoffa, which ultimately resulted in his conviction on charges of jury tampering.

Throughout his career, first as a lawyer and then as a Federal judge, Judge Miller was admired not only for his scholarly knowledge of the law, but for his ability to apply that knowledge to the problems before him with a deeply ingrained sense of fairness and wisdom. The Nation was well served by Judge William E. Miller, and he will be sadly and sorely missed.

I ask unanimous consent that an editorial that appeared in the Nashville Tennessean be printed in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

JUDGE WILLIAM MILLER: LEGAL SCHOLAR, JURIST

U.S. Court of Appeals Judge William E. Miller, one of the most outstanding jurists produced by the state, is dead at the age of 68.

Judge Miller, a native of Johnson City and son of a judge, had a long and distinguished career in the law—both in private practice and on the bench.

After graduating from the University of Tennessee, he obtained his law degree from Yale University and entered private practice in Johnson City.

His first experience on the bench was as chancellor of the state's first chancery division, to which he was appointed by the governor in 1939.

After three and a half years in the Army Air Corps during World War II—during which he was assigned to try numerous court martial cases—Judge Miller returned to Tennessee and resumed a career which was to propel him into consideration for a seat on the U.S. Supreme Court.

He was appointed judge of the Middle District of Tennessee in 1955 by President Eisenhower, and it was in this spot that he compiled the greater part of his outstanding record as a jurist.

Judge Miller presided over the conspiracy trial of ex-Teamsters Union Boss James R. Hoffa, which led to Mr. Hoffa's being charged with jury tampering in Judge Miller's court. It was through Judge Miller's determination to protect the integrity of his court—after he learned of the jury-tampering efforts—that the facts were brought out and Mr. Hoffa and others were tried and convicted of the charges in Chattanooga.

Although Judge Miller decided many cases involving legislative reapportionment, congressional redistricting, and others, he said at a celebration of his 20th year on the federal bench that the Hoffa case was the most dramatic to come before him.

Judge Miller was appointed to the Sixth U.S. Circuit Court of Appeals in Cincinnati in 1970. At about the same time, he was being mentioned prominently for a vacancy on the Supreme Court. He remained in contention for that seat until shortly before a nomination was made.

Judge Miller was an outstanding legal scholar, a dedicated citizen and valued neighbor. He will not only be missed in his community and state, but the vacancy he leaves in the judiciary will be extremely difficult to fill.

REBUILDING AMERICA'S CITIES—A NEW URBAN POLICY

Mr. HUMPHREY. Mr. President, last Thursday, I had the privilege of addressing the Conference of Democratic Mayors in New York City. In my speech I outlined a comprehensive program for redeveloping and revitalizing our Nation's major urban centers. I suggested that a new partnership be established, involving all levels of government and the private sector, to correct many of our major urban problems. I called for a commitment, equal in scope and in vision, to the famous Marshall plan which restored European cities.

As part of this new partnership, I outlined a seven-point program of Federal Government activity.

First. A binding commitment to maintain full employment in the Nation and our cities. This commitment involves both monetary and fiscal policy and specific economic development programs for the cities.

Second. Acceptance of primary responsibility by the Federal Government for financing welfare and health programs to aid the disadvantaged.

Third. A permanent system of antirecession programs to assist State and local governments whenever the Federal Government fails to maintain full employment.

Fourth. A public works investment program to revitalize and rehabilitate public infrastructure such as transportation, housing, sewerage and day care facilities.

Fifth. Immediate renewal of the general revenue sharing program and the incorporation of incentives to encourage regional tax base sharing.

Sixth. Use of Federal Government procurement and employment expenditures to aid the economies of declining and depressed areas.

Seventh. Greater coordination of Federal, State and local government economic policies and further incorporation of State and local government opinions into the Federal Government budget process.

Mr. President, since many of my colleagues are interested in revitalizing our major urban centers, I ask unanimous consent to incorporate the full text of my remarks to the Democratic mayors at this point in the RECORD.

I further ask unanimous consent that an article from U.S. News & World Report, entitled "Are All Big Cities Doomed," be printed in the RECORD.

There being no objection, the remarks were ordered to be printed in the RECORD, as follows:

URBAN POLICY FORUM

(Remarks of Senator HUBERT H. HUMPHREY to the National Conference of Democratic Mayors, New York, N.Y., April 1, 1976)

It is a pleasure and an honor to be here today with my good friends from the National Conference of Democratic Mayors.

We have fought side by side in all of the great battles for social and economic justice in America over the last three decades. We have shared glorious triumphs and painful setbacks. But we always have given our best and we always stick together.

Today is a landmark in the history of the Democratic Party. For the first time the leaders of our Nation's greatest cities have called the aspirants to the Democratic nomination before them to exchange views on crucial national issues.

The Mayors have eloquently expressed the hopes, concerns, frustrations, and needs of our Nation's cities. And the candidates have presented their policies and programs for revitalizing our major urban centers.

We all have been educated, the level of debate has been elevated, and the Democratic Party has been strengthened. It has been a productive day and I applaud Mayor Beame, Mayor Maier, and the National Conference of Democratic Mayors for taking this important initiative.

This Urban Policy Forum demonstrates once again that ours is the Party of creativity, compassion, and commitment.

I am here to speak with you of opportunity and hope for our great urban areas. Too often our attention is so taken with the tragic problems in our cities that we fail to look at their great strength. An objective dialogue on urban America in the 1970's is truly a "Tale of Two Cities."

Our cities represent the best and the worst that American society has to offer. They are the pinnacle of American culture—containing the great orchestras, the theaters, the great libraries and universities. They are the vibrant centers of world commerce and industry. They are the great gathering places for the American people—the plazas and market places of 20th century America.

Our cities are wealthy, they are powerful, they are fascinating, they are cosmopolitan and, most of all, they are tolerant.

Yet in the shadow of these great accomplishments lies the shame and despair of America. Ugly slums, overcrowded housing, poor schools, rampant crime, malnutrition,

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drugs and widespread human suffering—all untouched by the grandeur and splendor that stand a few short blocks away.

Our nation cannot afford this paradox any longer. The sunshine of social betterment and economic development must burn away the clouds of squalor that hang over large portions of our cities and inflict untold misery on our people.

Eight years ago this month, the National Advisory Commission on Civil Disorders issued its final report. That report should have changed the direction of America's urban policies. Every chapter, every page, every word of that report cried out for action.

It described in shocking detail the conditions that percipitated violence and disorder in our cities. As mayors, many of you must live with these conditions every day—abject poverty, widespread unemployment, deteriorated housing, disintegrating families, and worst of all broken promises and shattered dreams.

Eight years ago, the members of that Commission reached a sad but prophetic conclusion. They said, "Our Nation is moving toward two societies, one black, one white—separate but unequal."

But the members of that Commission realized that this conclusion was not an irreversible truth. They knew that America was at a crossroads with two possible paths to the future.

One was the path of neglect, abandonment, and decline. The signposts along that path were a cold shoulder from the Federal Government, a fanatical worship at the altar of the "free market forces," and a continuation of oversold but underfunded social programs. In all fairness, many of the programs that are being criticized today were never given a chance. They were underfunded and after 1969, there seemed to be a deliberate effort to sabotage them.

The other path would be the path of revitalization, enrichment and conservation. This path would be marked by a commitment of resources equal to the problem, by an unwillingness to tolerate the waste and indignity of unemployed people and resources, and by a commitment to make good the promises of American democracy to all citizens—urban and rural, black and white.

Eight years ago, this choice was presented to the American people and to their leaders.

Since then, our nation and our cities have not fared too well. Unemployment in our cities has soared, inflation has ravaged family and city budgets, the quality of public services has declined, and middle income families and jobs have left our cities, leaving behind ever greater concentrations of low income families.

Where have the leaders of our nation been during this period?

The Nixon-Ford Administration simply sat on its hands with cruel and callous indifference. "After all," they asked, "what could we do, this simply is 'the market' at work—tough luck if you get hurt."

In this blind ideological determination to let "nature take its course," the White House has vetoed every major effort by the Democratic Congress to improve conditions in our cities. We have suffered seven sad years of conscious and official neglect of urban America.

The time has come to return to the high road of revitalization and recovery. We cannot shy away from that challenge. We cannot allow this Nation to crumble and decay as its cities are abandoned.

The problems aren't going to disappear by themselves. They aren't going to be solved just because someone says, "We need less government" or "Let's blame it on Washington." These problems must be attacked by every level of government working closely in a partnership with the private sector. Jobs must be provided, poverty must be eliminated, slums must be rehabilitated, discrimination must be halted, neighborhoods must be restored, social services must be revitalized, hope must be returned to our cities. Nothing less will do. There are no more easy choices.

In attacking these problems, there is much we can learn from our previous experience. In the 1960's a compassionate and energetic Federal Government plunged headlong into the battle against our urban problems. In this historic experiment in social change, the Federal Government identified the problems, it made the commitment and it proposed the solutions.

Most of these programs were well conceived. They were all well intended and most of them were successful. A few were less successful than others. But even the failures did not result solely from poor program design. Most of these were less successful due to poor administration, others due to gross underfunding, and some because the programs were not effectively coordinated among responsible levels of government. In the 1960's we clearly learned that the Federal Government could not do it alone.

But we have learned an equally important lesson in the 1970's under the so-called "New Federalism." And the problems we see in Detroit, New York, Boston, Milwaukee and many other large and small cities are part of that lesson.

We've learned that rhetoric about "local control" is worthless without a coordinated plan of action involving all levels of government; that talk of local discretion is pointless without a commitment of funds from the Federal and State Governments that is sufficient to meet the needs. Rhetoric won't pay the policemen and firemen, rhetoric won't operate the school system, and rhetoric won't meet local housing needs. We have learned that state and local governments cannot do it alone either. We've learned that the people's government, the Federal Government, must join the fight, become the leader, and actively bear its fair share of the burden.

Let's take a look at what has happened to the dollar since the so-called "New Federalism" was instituted.

From 1950 to 1972, Federal grants-in-aid grew every year until they represented almost 25 percent of all domestic outlays. Since 1972, the numbers tell another story. In Fiscal Year 1977, grants-in-aid will be only 21 percent of domestic outlays, the fifth straight year of decline.

The "New Federalism" of Nixon and Ford is nothing more than a conscious and designed policy to reduce the Federal Government's commitment to our cities and to the millions of American citizens who live in them. And who are many of these millions? The poor, the elderly, the sick, the handicapped, the unemployed, the black, the brown, the Puerto Ricans, the American Indians—the people who most need a government that cries out for justice and understands human need. At this very hour, Federal Government policies discriminate against these people.

The challenge that we now confront is to develop a comprehensive national urban policy that combines the commitment of the 1960's with a *New Partnership* that actively involves all levels of government in close cooperation with all elements of the private sector.

The Federal Government must accept its responsibility to maintain full employment and reasonable price stability and to provide income assistance to families that do not participate fully in our economic system. If Arthur Burns can tell us that the Federal Government should be the employer of last resort and that the Federal Government should set specific goals and priorities, then Democrats, citizens, Members of Congress and presidential candidates should listen. We should accept that advice.

The States must make sure that their political off-spring, the cities, have sufficient financial resources to provide essential services.

And the local governments must marshal their resources frugally so that they can provide essential services without driving out middle income families and jobs.

This is not an easy task. It involves changes in both the institutions and the policies of government. But it is a challenge we must accept. It is the highest priority for a Democratic president and a Democratic administration.

We recognize that a New Partnership cannot be built on empty promises or unsupported dreams. A massive commitment is needed. I remind you that when this Republic was started, people committed their lives, their fortunes and their sacred honor. They didn't commit one hour a week, they didn't commit ten percent of their fortune, and they didn't commit just a little bit of their honor. They committed it all—and because they made that commitment, this Nation has survived. We need that commitment again. A commitment that possesses all the scope, the vision, the financial backing, and the spirit that the Marshall Plan embodied. We need a new partnership—the Federal Government, state governments, local governments, business and labor, all working together; a new partnership of the people with their government.

A New Partnership requires coordinated planning by all levels of government. It means that ideals must flow from the bottom up, as well as from the top down. It means goals and priorities must be carefully set and examined by all levels of government. It means that resources must be made available on a continuing basis—not in a stop and go manner.

The New Partnership means planning goals, commitments, consistency, and adequate resources. All are necessary and all are required.

This is the way we put a man on the moon. We planned our space program. We set goals and a time frame. We committed resources. We never back away from that commitment. We didn't hesitate, we completed the task. We did the same in Europe under the famous Marshall Plan. We planned the recovery of Europe and we made the commitment. And it is the miracle of the twentieth century. Why is it that America can plan to rebuild Berlin? Why is it that we can plan to rebuild London? Why is it that we can rebuild Rome? Why is it that we can rebuild the cities of Germany, and of Italy, and of England, but we can't rebuild the cities of America?

If this New Partnership is to become a reality, the Federal Government must undertake several actions.

First and foremost, we must make a binding commitment to maintain full employment in our nation and its cities. That is the only premise on which we can build recovery. We simply cannot afford the catastrophic waste of unemployed workers and capital that we have experienced in the last two years.

The entire economic terrain is littered with the casualties of Nixon-Ford economic mismanagement.

Seven million people are now officially unemployed. Another three million have dropped out of the full-time labor force.

Some $27 billion in revenues was lost by state and local governments in 1975 alone.

Over $400 billion in output and income has been lost due to this recession. That's waste.

Yet these national figures mask even greater hardship and suffering in our central cities.

While the "official" national unemployment rate is 7.6 percent, it is 20 percent in Newark, 17 percent in Detroit, 12 percent in Cleveland, 12 percent in Boston, 11 percent in New York and 10 percent in Philadelphia. National figures tell us very little. You've got to look where the people live.

It is time that we accept the fact that the major long-term solution to our urban problems is full employment in our cities.

A true full employment program must start with sound monetary and fiscal policies. That means getting the Federal Reserve to be part of this government and not allowing it to stand in the corner as if it had national sovereignty. But these policies alone will not be enough. Their impact just doesn't trickle down into the pockets of high unemployment in our central cities.

National economic policies must include economic development programs designed specifically to create new private sector jobs in our central cities.

We need a National Domestic Development Bank. We have over $9 billion worth of commitments this year for international economic development. These are long-term loans with low rates of interest. Yet we have no banking system to meet the financing needs of our states and municipalities. We need long-term low interest loans to encourage businesses to locate in central cities and to help state and local governments build the infrastructure necessary to attract new industry. And we need selective tax credits that make investing in high unemployment areas more attractive.

There are some people in this Nation that say we can't afford full employment. They are concerned that full employment can only be achieved at the expense of price stability.

They are wrong. We have seen that as employment increases inflation is reduced.

But even if they were not wrong, I could not accept their philosophy. No national economic policy should ask millions of American families to suffer the hardship of unemployment so that the majority of Americans can experience the pleasure of price stability. That's wrong and morally unacceptable.

We once had an economic system in this country where the few suffered for the benefit of the many. But we ended that system 113 years ago with the Emancipation Proclamation.

It is time to provide that same freedom to those enslaved by unemployment.

Second, the Federal Government must accept primary responsibility, once and for all, for financing welfare and health programs for disadvantaged American families.

No state or local government should be driven to bankruptcy by welfare expenditures because a large share of the Nation's poor have chosen that city or state as a place in which to live. Nor should any state or local government be forced to bear a disproportionate share of the burden of providing essential health services to the poor.

The health and welfare of individual American citizens always has been and should remain a chief concern of the Federal Government. There is nothing wrong with a government by the people, of the people, and for the people being concerned about the people's health, education and well-being.

Third, we need a permanent system of anti-recession programs ready and in place whenever the unemployment rate rises above full employment levels.

There should be two elements to this anti-recession strategy—emergency public service jobs and emergency budget support grants.

The concept is quite simple. The Federal Government has an obligation to maintain full employment. When it fails, it should provide assistance to cities that experience excessive unemployment. These programs will allow cities to maintain essential services.

Fourth, we need a major public works investment program to modernize and replace deteriorating infrastructure. For too long, our Nation has been privately rich and publicly poor.

It is time to make a major commitment to revitalize our transportation systems, to improve our sewage treatment facilities, to upgrade our housing stock, and to provide day care centers for pre-school education. People say, "We can't afford this Mr. Humphrey." But I remind you that every project is job-producing; every project is revenue-producing. The only programs that do not produce jobs, revenue, and income are welfare and unemployment compensation. This country was built on hard work, not welfare and unemployment compensation. And people still want to work. They are crying out for a chance to do something. I think it's our job to make sure they have that opportunity.

We must identify all major public investment needs and begin to meet these needs with consistent funding and a permanent program.

We also should identify an inventory of individual projects that could be taken off the shelf quickly if the unemployment rate starts to rise. These should be important projects that can be started and completed rapidly. We then would be prepared to swing into action quickly with useful projects if we enter another recession. It's very simple—we just do a little planning ahead.

Fifth, the revenue sharing program must be renewed immediately to allow cities to plan next year's budgets. And it must be renewed on a long-term basis so cities can plan for future years.

In the future, however, I believe we should consider the desirability of using revenue sharing to encourage regional tax base sharing. One of the major problems confronting some of our older cities is that they are islands of urban poverty in a sea of suburban wealth. Revenue sharing could be used to encourage suburban jurisdictions to share a small portion of this wealth with the central city on whom their future viability relies.

The Twin Cities area in my home state of Minnesota already has developed an extremely effective tax sharing scheme. Other regions should be encouraged to do the same.

I also believe we should consider adjusting the revenue sharing formula to reflect more adequately the number of low income families that reside within each jurisdiction.

Sixth, we must utilize Federal Government procurement and employment expenditures to bolster the economies of depressed cities and areas. At present, the Federal Government is spending three and four times more per person in growing areas than in declining areas. Where the money should be spent, it is not being spent. And where the money is not needed, it is being poured in.

Finally, we must re-examine our institutions for formulating economic policy and for coordinating federal, state and local government activities. At present there is no systematic institution through which states and cities can make their concerns known. Nor is there any method for coordinating federal, state and local government policies. Mayors and governors quite frankly are on the outside looking in.

This relationship should be changed in several respects.

First, the Vice President should become a permanent liason with state and local government officials—their man or woman in Washington. You need someone that you can go to, someone that understands. The Vice President should be the spokesman for state and local governments in the President's Cabinet. When I was Vice President, governors and mayors regularly were consulted on major policy decisions and they had direct access to the White House through my office. Now, they're lucky if they get a peek at federal policy after it has been released to the press.

Second, a system of permanent regional councils should be established. These councils would be composed of state and local government elected officials and a representative of the Federal Government. The President would use the regional councils to become acquainted with the unique concerns of each region. The Federal representative would be an official just below Cabinet rank who would act as the eyes and the ears of the President. The Federal representative would report directly to the President and the Vice President, and not through the Cabinet.

Finally, State and local government officials should be included in the Federal budget process before the budget is signed, sealed, and delivered. At present, they are invited for a little party in the White House after the budget is released.

Our Nation's cities represent the best of times and the worst of times—the hope and despair—of 20th century America. The poverty of the ghetto languishes next to the affluence of Park Avenue. Pockets of 30 and 40 percent unemployment are just a few short blocks from the plush offices of the captains of American industry. Luxurious townhouses cast shadows over crumbling slum tenements. Open spaces and parks are fed by rubbish-strewn streets. And tightly knit ethnic neighborhoods are surrounded by pockets of alienation.

In many senses our cities represent the apex of American achievement, that portion of society that results from our hardest work and that which is most worth saving. But in other respects, the shame of our cities is the largest scar on the national body politic, that portion of society that is most in need of work so that it can be saved.

It is that task—turning despair into hope, promises into results, opportunities into accomplishments—to which we must be willing to commit ourselves and our Party today.

I'm reminded of the words of the great Victor Hugo. He said the future has several names. "For the weak, it is the impossible. For the faint-hearted, it is the unknown. For the thoughtful and valiant, it is the ideal."

We face an enormous job. It will require a great deal of the human energy and financial resources of the American people. But it is a job that we simply cannot afford to put off until tomorrow.

[From U.S. News & World Report, Apr. 5, 1976]

ARE ALL BIG CITIES DOOMED?

It's no news that America's major cities, on which so much of the nation's growth depended for the last 200 years, are in decline. The challenge is whether this decline can be halted, or whether *all* big cities are to falter and eventually become ghosts of their once-thriving selves.

The situation as it stands: Many of the most famous centers of industry, culture and government are losing people. And the ones they're losing are mostly their solid taxpayers—middle-income families whose breadwinners have technical and professional skills.

Companies, too, are leaving, and with them, jobs.

Left behind are increasing proportions of the poor, the badly educated, the unskilled, the unemployed and those on welfare—people who cannot leave if they want to.

Reasons for decline: The pages that follow make clear some major causes of the decline—the interstate-highway system, other technological changes, crime, poor schools, heavy taxes, high living costs, and budgets that now have less leeway for attacking the problems.

The figures on pages 50 and 51 make it clear that the problem is most acute in the Northeastern quadrant of the U.S. But they also

show that declining cities are not limited to this older industrial region. Moreover, some urban experts are predicting that the process of decay will in time engulf other cities that are still growing and prospering.

Others suggest that the decline will even make for better cities—less congested, with more open space for parks and other uses. But that leaves unanswered the question of how the cities, with fewer taxpayers, shrinking property values and tax rates already high, are to foot the bills.

A number of solutions are being urged.

It's proposed that financial distress in some cities, such as New York, Detroit and St. Louis, could be eased if they became parts of areawide metropolitan governments. Then, middle-class families and industries that have moved to the suburbs would pay a larger—some urbanologists say a "fairer"—share of inner-city costs. The effect would be somewhat similar to the process of annexation that helps keep Houston and Charlotte growing.

But that idea appeals to few suburbanites. And there are city bosses, too, who lack enthusiasm. The suburbs could easily overwhelm their political machines. So this idea usually leads to suggestions for a major change in federal-State relations, not something that is going to happen soon.

Welfare reform, often urged for other reasons, has its save-the-cities aspect. Mayors and Governors would like the Federal Government to take over the entire cost, and some suggest setting more-uniform standards for relief across the nation. That would take a load off the budgets of New York and many other cities, and give the poor less reason to stay in places where living costs are high. Financial and social burdens would be distributed more evenly.

But the budget benefit would be limited. Some big cities—Chicago and Los Angeles are examples—already have little expense for welfare, which in their case is mostly a State or county function. And the Federal Government, it own books badly out of balance, is trying to reduce its outlays for welfare, not add to them.

The federal deficit also makes it unlikely the cities will get substantially larger amounts for revenue sharing, community development and other block grants. Indeed, the way the revenue-sharing formula works, a city that loses population also loses some of its allocation.

PRESIDENT'S STAND

In short, no big federal rescue is in the making. The Ford Administration's policy: Let each city work out its own salvation with such help it now gets from Washington, and without anything extra for inflation.

Even so, the outlook is not all dark. In most cities, the revival of some decaying neighborhoods indicates what might happen if a formula is found to win back more upper and middle-income families. Business and government, too, are building new offices, hotels and sports and cultural centers, hoping they will attract more patrons instead of merely luring them from other declining downtown areas.

Finally, there is this overriding fact: Big cities still are the centers of finance, commerce and government, the focal points for the arts, the homes of eminent universities and research hospitals. Those functions are likely to remain, no matter how the metropolitan areas change in the nation's third century. That's the best guarantee that American cities will not be allowed to become ghost towns.

BIG CITIES: BEHIND THE GROWING CRISIS—THE FACTS AND FIGURES

Big cities are losing people—

Population change since 1970—

People living in big cities—down 1.9%.

People living in suburbs—up 8.4%.

People living in small towns and rural areas—up 5.0%.

PARTICULARLY IN EASTERN HALF OF UNITED STATES

Among biggest cities	Population decline, 1970–73 (percent)	Population is now the lowest since—
Minneapolis	12.0	1920
St. Louis	10.3	1890
Cleveland	9.6	1910
Atlanta	8.9	1950
Fort Worth	8.6	1960
Detroit	8.4	1920
Buffalo	8.1	1910
Pittsburgh	7.8	1900
St. Paul	7.3	1930
Louisville	7.2	1940
Chicago	5.8	1920
Cincinnati	5.6	1920
Seattle	5.2	1950
Philadelphia	4.5	1920
Oakland	4.3	1940
San Francisco	3.9	1940
Kansas City, Mo	3.8	1960
Milwaukee	3.7	1950
Newark	3.7	1910
Boston	3.6	1900
Dallas	3.4	1960
New Orleans	3.4	1950
Long Beach, Calif	3.4	1960
New York	3.2	1940
Baltimore	3.1	1940
Washington	3.0	1940

Source: U.S. Bureau of the Census.

CITIES VERSUS SUBURBS: DIFFERENCES IN THEIR POPULATION

	Cities	Suburbs
Median family income	$11,343	$14,007
Proportion of blacks (percent)	22.3	5.0
Proportion of families headed by women (percent)	18.9	9.5
High-school graduates [1] (percent)	59.8	68.5
College graduates [1] (percent)	13.1	16.2

[1] Among persons aged 25 and over.

Source: U.S. Bureau of the Census.

Crime inside cities: far more common than outside.

Number of crimes per 1,000 of population at latest official count

In cities	52.1
In suburbs	36.1
In rural areas	15.9

HOW CRIME INCREASED IN MAJOR CITIES

(Based on serious crimes as reported by the Federal Bureau of Investigation)

	Change from 1970–74 (percent)	Number per 1,000 residents
United States as a whole	Up 26.6	41.3
Atlanta	Up 77.7	99.9
Austin	Up 182.0	56.9
Baltimore	Up 22.7	78.1
Birmingham, Ala	Up 74.4	67.3
Boston	Up 71.6	84.9
Buffalo	Up 38.0	53.6
Charlotte	Up 76.5	56.5
Chicago	Up 90.0	67.6
Cincinnati	Up 77.1	67.8
Cleveland	Up 16.7	62.1
Columbus	Up 52.5	57.9
Dallas	Up 63.2	85.6
Denver	Up 26.2	85.4
Detroit	Up 9.1	85.2
El Paso	Up 157.6	56.8
Fort Worth	Up 62.2	60.5
Honolulu	Up 172.5	104.8
Houston	Up 52.1	62.4
Indianapolis	Up 35.3	40.7
Jacksonville	Up 62.4	66.4
Kansas City, Mo	Up 40.3	66.3
Long Beach	Up 65.1	68.3
Los Angeles	Up 22.7	77.1
Louisville	Up 4.8	50.6
Memphis	Up 132.1	65.1
Miami	Up 60.4	85.8
Milwaukee	Up 67.2	44.2
Minneapolis	Up 43.7	86.8
Nashville	Up 51.7	57.8
Newark	Up 2.9	84.8
New Orleans	Up 9.9	61.4
New York	Up 0.4	62.2
Oakland	Up 41.1	120.2
Oklahoma City	Up 140.7	61.8
Omaha	Up 101.7	56.4
Philadelphia	Up 78.7	38.8
Phoenix	Up 162.3	96.8
Pittsburgh	Up 3.0	54.7
Portland, Oreg	Up 79.7	95.7
St. Louis	Up 44.6	114.4
St. Paul	Up 38.2	67.7
San Antonio	Up 85.7	57.2
San Diego	Up 127.5	60.2
San Francisco	Down 2.1	83.7
San Jose	Up 176.6	67.9
Seattle	Up 47.6	80.1
Toledo	Up 121.0	63.1
Tucson	Up 235.4	68.5
Tulsa	Up 88.6	55.4
Washington	Down 7.9	69.5

Note: In some cases, unusually high increases in crime may be due to annexation by cities of surrounding territory.

Job market is shrinking in many cities

From 1970 to 1974, even before the wave of recession layoffs, employment was declining in major cities—at a time when jobs in U.S. as a whole increased by 9.3 per cent. Among big cities losing jobs—

PEOPLE AT WORK

	1970	1974	Change (percent)
Detroit	577,000	470,000	Down 18.5.
St. Louis	224,000	183,000	Down 18.3.
Baltimore	353,000	308,000	Down 12.7.
Philadelphia	776,000	682,000	Down 12.1.
Washington	342,000	307,000	Down 10.2.
Chicago	1,354,000	1,249,000	Down 3.4.
New York	3,131,000	2,932,000	Down 6.4.
San Francisco	454,000	443,000	Down 2.4.
Los Angeles	1,282,000	1,273,000	Down 0.7.

Source: U.S. Department of Labor.

The bigger the city, the heavier the financial burden

Taxes

Average revenues per capita from local sources, in cities with populations of—

1,000,000 and over	$426.90
500,000 to 1,000,000	285.47
300,000 to 500,000	231.37
All U.S. cities	208.58

Debt

Average local debt per resident in cities with populations of—

1,000,000 and over	$1,052
500,000 to 1,000,000	569
300,000 to 500,000	526
All U.S. cities	464

Source: U.S. Bureau of the Census.

NEW YORK: WHERE ALL THE PROBLEMS ARE PRESSING IN

NEW YORK.—The financial and social ills of America's big cities are nowhere so painful as in this, the biggest of them all. And it's hard to see how things are going to get better here.

New York's festering fiscal crisis has forced Mayor Abraham Beame to slash millions of dollars and thousands of jobs from the city budget. Taxes are up.

The result is a speedup in New York's decline as an attractive place to work and live. Businesses and taxpayers are fleeing to the suburbs.

A year after the start of the emergency here, officials are worried that the patchwork plan to save New York may unravel, plunging the city into full-fledged default.

For people in other big cities, New York's crisis stands as a warning of the direction in which they may be headed. For New Yorkers, the crisis of the cities is already a day-to-day reality.

In municipal hospitals, 750 nurses have been lopped off staffs. At one institution, that means a lone nurse and an aide must care for each 43 patients. Visitors frequently perform vital chores for patients that once were part of the nurses' routine. Some city hospitals are being closed.

Schools are victims: Massive layoffs in the schools have forced teachers to take on larger classes, while a shorter class day gives students less time to learn. Vandalism at school buildings has climbed since 50 per cent of the security personnel were dismissed.

Criminals and prostitutes ply their trades more blatantly, now that the city's police force has been reduced by 12 per cent.

The cutback has hampered the city's drive to clear the Times Square area of pornography shops and massage parlors.

Libraries have shortened their hours. Some galleries in museums are closed because the staff of guards is too small to keep an eye on all the art works.

In the last 14 months, the city has eliminated 44,275 public jobs, or 15 percent of the municipal work force. Private industry pulled 100,000 more jobs out of the city last year, bringing to 500,000 the number of positions lost since 1969.

Industry is leaving largely because taxes, wages and prices in New York are too high for many companies to bear profitably. But the city's decline plays a part. For example, the president of a company that moved to suburban Long Island explained:

"The last straw came when one of my executives was mugged and knifed while riding his bicycle in Central Park during daylight hours on Sunday."

A symbol, moving van: As life in the city deteriorates and job openings disappear—464,000 of them in the last five years—many New Yorkers are leaving the city.

Felix Rohatyn, chairman of the Municipal Assistance Corporation, put it this way: "Every week, almost 2,000 New Yorkers who could not be replaced called the moving van."

Many who stay behind are out of work. Unemployment hovers at 12.2 per cent in New York City, despite big improvements in most of the country.

The exodus of businesses has strangled New York's once high-flying real-estate industry.

Companies occupying the newest buildings, such as the giant World Trade Center, are leaving older buildings vacant—even the Chrysler Building, with its landmark stainless-steel top.

Now, office construction has all but come to a halt.

Inflated costs have also slammed into rent controls on apartment buildings, limiting construction in that sector and spurring many landlords to abandon their buildings rather than to take a financial beating on them.

Property-tax delinquencies rose last year to 7 per cent of the tax base. For the first time in 33 years, the assessed value of real property in New York is expected to fall in 1976.

Another sign of decline: A survey by Helmsley-Spear, Inc., found that the number of hotel rooms in New York dropped for the eleventh straight year in 1975.

No new hotel rooms were added in the city last year.

Limited tax break: Reasons for optimism about this city's future are hard to track down. For one, Mayor Beame has inaugurated a program of limited property-tax relief to lure private developers to build in the city.

If construction or other investment takes place on city-owned property, developers may opt for a special break on leasing costs.

Among the first to make use of the plan is a group that intends to reconstruct a 1,400-room hotel near Grand Central Station.

The city also plans to expand port facilities in New York harbor and to add a new industrial park in the south Bronx to the five that are already owned by the city.

Tourism is climbing in New York, and the theater is enjoying a renaissance.

But the pluses do not outweigh the minuses in New York's future, in the view of most experts.

How did the city get into such a fix? Like most cities, New York has been caught between rising demands for city services and growing resistance to tax hikes from the companies and individuals who foot the bill.

According to Juan de Torres, economist at the Conference Board, New York's big mistake was to give priority to spending for the poor while ignoring the outflow of taxpaying businesses and residents and the deterioration of its stock of taxable housing.

The city has not been a profligate spender, compared with other cities on a service-by-service basis. But New York has paid for costly programs that no other city offers. Among these are a free-tuition university, an extensive hospital system, a big welfare-benefit program, transit-fare subsidies and housing aid for low and middle-income groups.

New York's budget is still 12.3 billion dollars for the 1975-76 fiscal year, among the largest government-spending packages in the U.S.

To keep up with rising outlays, taxes have mushroomed. From 1964 to 1974, for instance, the bite from the city's major taxes jumped from 7.6 to 10.2 per cent of personal income. Total take from these taxes doubled.

Put together, the State and local tax burden on New Yorkers is the heaviest in the nation, 24 per cent more than that of the next highest State and 55 per cent above the national average.

Decline in advantages: The tax load increased just at a time when many of the advantages of locating in New York were slipping away.

A case in point is the securities industry, which traditionally has been tied to Wall Street.

Nine dealers deserted New York for New Jersey when the latest round of taxes on securities trades was announced. They were able to leave because electronic communications have made proximity to the stock and bond-trading floors unnecessary.

New York's crisis has been exacerbated by the city's failure to follow basic budgetary rules. Officials hid problems from taxpayers for years, running the city deeply in the red through budget trickery that evaded the spirit, if not the letter of the law.

One example: Despite rules requiring the city to review pension liabilities periodically, no big changes were made for years in several of the programs. Pension costs were vastly understated as a result. Revised estimates show that the city has promised future benefits of 6 billion dollars for which no money is set aside.

Proposals for lifting New York out of its financial mess abound.

Further budget trimming seems inevitable. For instance, discussions about taking another whack at university expenditures are under way.

Rent controls are being challenged, although Mayor Beame has opposed any outright lifting of the ceiling on rental increases.

Officials also have decided that most city workers will drop out of Social Security on March 31, 1978, something local-government employes are able to do under the law. The city figures to save 200 millions annually by leaving the system.

Major savings could come if New York can shift to the federal or State governments such expenses as welfare, costs of the city court and prison systems or outlays for City University.

Mayor Beame has also proposed a major program to enlist volunteers to clean up parks and streets and to perform other neighborhood services. But unions are worried that the plan may take jobs from city employes.

Projects to increase the space for industrial parks in the city and to offer incentives for companies locating in New York also figure in the city's efforts to reinforce the sagging economy.

Spreading impact: Such efforts alone may not be enough to cure the present crisis. Money troubles have spread from New York to other cities and the State government. Their problems will make it even harder for New York to meet the terms of the package of federal loans and private aid that bailed the city out in December.

Even if New York City avoids default, it faces the arduous task of rebuilding its economy.

The struggle is costing the city much of the glitter that once made it this nation's premier city.

CITIES ARE BECOMING DUMPING GROUNDS FOR POOR PEOPLE

Interview With Pierre de Visé, Professor of Urban Sciences, University of Illinois at Chicago.

Critical questions for the nation's decaying cities: Is the decline fated to continue? What can be done to arrest the downslide? A prominent urbanologist gives his views on these and other problems.

Q. Professor de Visé, why is it so many large and famous American cities—and some of their suburbs, too—have stopped growing and are losing population?

A. We no longer need very large cities. We developed these behemoths like New York, Chicago and Philadelphia on the basis of late nineteenth-century transportation and technology.

The railroad, for instance, was important not only in the development of the large cities but also in the concentration of industry near the downtown. After supplies got to the railroad terminal, it was literally a matter of using horses and carts to get them to the industries that needed them. This kind of central location is no longer justified for most industries. They're better off in the suburbs because of the need for more land, more floor space, and off-street parking for employes.

Also, business organization itself has changed. Today, the large holding companies that used to operate giant factories in the central city operate out of many small, dispersed plants.

I really see little in the cards that will make the city attractive again to industry.

Q. Is part of the problem that the industries that were important to the older cities are growing less rapidly?

A. Yes. Chicago's economy was based largely on steel production and fabrication. Now steel is being replaced by other metals and plastics—and even though the need for steel is still growing, the industry is highly automated, so that there has been a constant attrition in the work force.

Tax rates are another problem. Generally, industries, retailers and services get a much better tax rate in a suburb.

Q. Why is that?

A. Because city areas have a superabundance of poverty relative to the number of schoolchildren. The mix of residential and nonresidential property is also a factor. Some

districts in Cook County, Ill., outside of Chicago, have $300,000 of assessed valuation per pupil. Other districts, including the city, have $30,000.

As a result, we find that the average property-tax cost in a Chicago industrial suburb is about 40 cents per square foot a year, and inside Chicago it's about $1.80.

Q. What accounts for the flight of middle-income families from the cities?

A. Crime, the sense of danger, is generally regarded as the No. 1 problem when urban residents are polled with regard to their perception of problems in the city. To some extent, crime is a surrogate for race. That is, you almost never find racism or fear of blacks cited among the top problems, but when people say crime, many of them really mean blacks.

The school situation is generally the No. 2 reason and this refers to the quality of education and also to the fear of schools in which there are high proportions of blacks.

Q. Does that mean that programs to integrate schools have worked against the cities?

A. De facto segregation, the heavy concentration of blacks in some neighborhoods, is the real problem. The typical adjustment is that within two years in a racially changed community, white parents will pull their kids out of public schools; and within five years, they will move.

There's also this: Americans have always preferred small-town living. Most Americans have accommodated this preference by moving to a low-density suburb where they can have some vestiges of small-town living but also have the economic and cultural advantages of a large urban area.

Q. Will large cities continue to lose population?

A. I think the decline will continue. Given the greater mobility of Americans, the growing viability of small cities, and the preference many people show for places with warmer climates, the migration will go on.

I don't foresee any great resurgence of industry or commerce in the city. What we're seeing to some extent is equalization of population and employment. The huge concentration of people and jobs in the Northeastern part of the country is diminishing.

The distribution of income also is being equalized. Some of this is due to the push of congestion, of high wage costs and labor-union activity in the big cities, and some is due to the pull of areas in the South and Southwest that have less congestion, lower wages, and lots of unorganized labor.

Eventually, that's going to change. Wages in those areas will go up. Unions will organize. But for the present, we're talking of a deconcentration in which the less-developed portions of the nation and the less-developed portions of the urban areas are going to get a little more population, a little more income, a little more employment at the expense of those portions that are already well-endowed.

Q. Do you feel that the declining cities are becoming less and less attractive as places in which to live and work?

A. Paradoxically, I think city life has improved constantly in recent years. First of all, the density of the center cities has gone down; they have become less congested.

Q. So losing population can be a good thing—

A. In one sense, yes; but it's a bad thing, too, because the city loses some of its revenue base, and it loses jobs. But most people, looking at the inner city and comparing it with 10 years ago, will find that there is less crowding. And the data we have also suggest that the quality of the air has improved, noise pollution is down, and the water is better.

Q. On the other hand, didn't you suggest that cities are becoming more dangerous, as indicated by rising crime rates?

A. That's largely a reflection of change in population. If poor blacks are more likely to commit economic or violent crimes, then as the proportion of poor blacks increases, the crime rate is bound to go up.

Homicides doubled in Chicago and other large cities between 1965 and 1970, but that is not a very good indicator of crime in general, because murder is mostly a crime of passion that takes place between acquaintances or blood relations. A better indication is the fact that vandalism, thefts and other crimes have considerably increased in the schools.

Those are about the only hard data we have. The so-called major-crime index isn't very helpful, because we know that only a fourth or a fifth of all crimes are actually reported. An increase in the index may merely indicate better reporting, while a decrease may mean that the police department is tailoring its figures to indicate it is doing a better job of controlling crime.

Q. You talked about less polluted cities. But aren't cities becoming more littered with trash?

A. A neighborhood that experiences drastic racial or economic change tends to become dirtier, because the production of litter is greater in places that have less sophisticated populations.

The basic problem is this: The cities are becoming dumping grounds for minority people, poor people, and people who are not in the labor force but are dependent on welfare.

Historically, poor people were drawn to the city because their labor was needed. That need no longer exists. Now some are being attracted by the fact that the levels of welfare are more respectable in the North, and because the large cities have the public housing, the model-cities programs, the neighborhood health centers, and a plentiful supply of housing. In addition, there is the natural increase—the fact that there are a lot more births than deaths.

Q. Can anything be done to keep the cities from becoming overloaded with poor people?

A. One way would be to try to stop the migration of the poor by establishing national standards for welfare. The standards should allow for some differences in living costs from one part of the country to another, but they should be uniform within each State, so that there would be a strong incentive for poor people not to live in the high-cost areas like the big cities.

There's a need, too, for more birth control, but this is politically sensitive. Generally, second and subsequent births have been reduced tremendously. But the rate of initial births has not gone down at all, and most surveys show that only about 10 per cent of low-income people use birth control, not through any lack of desire for controlling birth, but because of a sad lack of knowledge. It would mean teaching birth control and making it available to 12-year-olds and 13-year-olds.

Q. Is there anything the cities can do to lure middle-income families back from the suburbs?

A. The energy crisis has been of some help, because the natural-gas shortage is making it more difficult for industries to build in the suburbs. And it would be possible to equalize tax rates between the cities and the suburbs if the States took over a larger part of the school costs.

But the big things that would induce people to come back into the city are changing the crime picture and changing the school picture—and nobody knows how to do this because, to an important extent, there is a 1-to-1 association between crime and quality of schools on the one hand and the concentration of minority people on the other. We don't know how to reduce crime and improve schools without eliminating the poor blacks. At least that's the way the middle-income whites perceive the problem.

Q. What about the idea that education will, in time, provide the needed uplift for the poor?

A. I'm not sure we should give up on that, but we are getting smarter about how difficult the problem is. Regardless of how many dollars you pour into a local community—into schools, health facilities, and so on—the fact that that neighborhood is isolated from middle-class communities is going to make it almost impossible for the people in it to become educated, skilled and assimilated into middle-class society.

There have been many attempts to provide standard education for low-income kids—and no success. We're not even sure what the problem is. Some educators say it has to do with the quality of teaching. Others say it's the peer group that is important, or the family environment. Still others contend that schools have little to do with the quality of education—that most of what you learn you learn in the street and at home.

Q. Some cities, like Chicago, seem to cope with budget problems that grow out of these changes much better than others, such as New York. Why is that?

A. The major reason is that Chicago's municipal government handles only about a fourth of the activities that are handled by the city government of New York. Welfare comes under the Illinois department of public aid; health is handled by the health and hospitals governing commission; transportation is under the regional transportation authority; recreation under the Chicago park district; schools under the Chicago board of education, and housing under the Chicago housing authority. So the general government in Chicago is doing fine, but these separate taxing and spending authorities, by and large, are bankrupt.

At the same time, the mayor of New York and his predecessor have been much more concerned with the welfare of the poor and minorities insofar as there is a conflict of interest between them and the middle class and the affluent, whereas in Chicago it's the other way around. That's an admirable policy for New York City to adopt, but it can't afford it. It's self-defeating, because if you develop a national reputation for being generous to poor people, you're going to attract more poor people.

New York is also more of a dumping ground than other cities, because it's a point of entry for Puerto Ricans and immigrants from abroad. So I think that city has to be given support, even at the price of greater State and federal control over the city's policies.

Downtown's "unique activities"

Q. Do you think that big cities will just fade away?

A. Not entirely. There are, I think, two important functions of downtown and the central city:

One is for unique activities, of which there can be only one in an urban area—a first-rate symphony, a major art museum, an opera company, a ballet. In some metropolitan areas, these activities can take place somewhere other than in the center—along a suburban beltway, for example. But in others, like Chicago, all major roads lead to the center.

There are a number of other activities that have got to be next to each other, and this is where the downtown really is at—the seat of government, the news media, the courts of law, the lawyers, business headquarters. For many decades, most of these functions are going to remain in a central location, in spite of the revolutionary changes that are coming in communications.

Q. How will the cities be able to support these functions if they continue to lose industry and taxpayers?

A. That calls for tax-pooling and equality

of public services at the level of the county or multicounty area.

Here in the Chicago area, we're dealing with Cook County, which is 950 square miles, and with six counties and 250 municipalities. I've called for a countywide school district with open attendance throughout, and for a second tier of government consisting of local community councils that would have some voice in decision-making. In effect, the affluent suburban ring of large urban areas should help to subsidize the center cities.

Q. Do you see much prospect of this kind of areawide government in view of the opposition from the suburbs?

A. No, but this is a process by which the cities were allowed to grow until around the turn of the century. If the boundaries of the city of Chicago had been fixed as they were in 1888, when they enclosed only 36 square miles, instead of encompassing 230 square miles as they do today, Chicago would have gone down the drain 20 years ago, because almost all of the city would now be a poverty area. And if the multicounty metropolitan government which is New York City had been allowed to continue to annex counties, it would not be bankrupt today. So it seems to me that what we are really asking for is a resumption of nineteenth-century policies of annexation of contiguous suburbs, which are still in effect in some parts of the country.

Q. How do you expect your own city, Chicago, to change in the years ahead?

A. My projections for the year 2000 indicate the city proper will have a lot fewer people, possibly 2 million compared with slightly over 3 million now, and a peak of 3.7 million about the middle of the 1950s.

Q. Will the Chicago metropolitan area continue to grow?

A. Mostly through the natural excess of births over deaths, less perhaps a million outmigrants in the next 25 years. I foresee about 8 million people in the standard metropolitan statistical area by the year 2000, somewhat below the official forecasts which range between 9 and 10 million.

Q. In the city itself, what other changes do you see?

A. The city will be increasingly bifurcated between the rich and the poor. The affluent will have a base in town and a permanent residence in the suburbs. Or if they're without children—the young and the elderly—they will live in a lake-front community in the city.

There will also be some pockets of detached, single-family housing occupied by the white middle class, almost all restricted to the far northwest section of the city—a much smaller area than now.

About 60 per cent of the population will be black, perhaps 20 per cent Latino, and 20 per cent English-speaking white. And most of that last 20 per cent will be people without schoolchildren.

Q. Do you think the city will look very different?

A. Much of the present housing will have been demolished. Some of the vacant land will be turned into small parks, but much of it will be taken over by institutional activities—education, government and the like.

The ghetto's vicious circle

Q. Why do you expect a great deal of housing to be torn down, when there seems to be a need for more good housing in the cities?

A. Whites are leaving the inner city—the areas peripheral to the black ghetto—faster than blacks take their places. The blacks move into the better housing the whites leave, and then the price of housing goes down in the old ghetto, until landlords can no longer cover expenses. Chicago's 1960 ghetto lost a third of its housing in this process.

In the metropolitan areas of this country, we have execessive housing construction. In the Chicago area, 1.7 new housing units have been built for every new family that has been formed since 1960.

Q. Do you see much hope of reclaiming the abandoned housing, as some cities are trying to do?

A. It's terribly expensive. There's no problem about rehabilitation in a community where there's an active demand. But if you're talking about rehabilitation for the kind of people who are concentrated in the cities—people who can't pay more than $100 a month rent for an apartment—the cost is prohibitive.

Q. Will the same broad changes show up in other cities?

A. Chicago and New York are better off than many other large cities, because they are regional capitals. Newark falls in the shadow of New York City and cannot get the national-office functions that New York City can get. Detroit and Cleveland fall under the shadow of Chicago. So I think that most other large urban areas in the Northeast will probably not do as well as Chicago.

WHY SOME PEOPLE LEAVE, AND SOME COME BACK—SIX FAMILIES TELL THEIR STORIES

(NOTE.—America's big cities are becoming more and more dominated by two types of residents:

(Well-to-do couples, usually with grown children, who can afford expensive apartments or houses in choice locations.

(Poor people trapped in the cities by rising costs, which prevent them from fleeing to the suburbs.

(Those who seek to escape consistently cite two principal reasons for wanting to leave—inner-city crime and deteriorating school situations.

(Those who elect to stay, or to return from the countryside, are drawn by the convenience of urban attractions.

(To find out more about this ebb and flow to big-city residents, U.S. News & World Report interviewed six Chicago-area couples about their experiences.)

"We Just Became Prisoners in Our Home": It was a bitter and difficult decision for Steve and Joyce Lemons to move away from the neighborhood where they both were raised on Chicago's North Side. They had hopes of raising their two daughters in the same community where they had roots.

About six years ago, the Lemonses began to have doubts about the quality of life in their old neighborhood. Long-established families, mostly whites, but blacks and Latin Americans as well, began moving away. Friends disappeared.

Many homes were put up for sale. Often they were converted into rental units or apartments. Property deteriorated as welfare recipients and illegal aliens from Mexico flooded into the neighborhood. Crime increased.

"There were as many as 12 or 13 of them living in a small apartment," Steve Lemons recalls. "On Sunday morning, we would have to call the police to come take the drunks from in front of our door so we could go to church. I couldn't even keep my own property looking neat, even though I had put up a fence. I had to pick up beer cans in my yard every morning. Once, I planted a shrub that was stolen from my yard the same night. We gave up trying to raise flowers."

Joyce Lemons remembers this:

"In the last year or so we just became prisoners in our home. We never knew what was going to happen, there was so much crime in the area. Houses were being burned all the time. We always had our doors and windows closed and locked."

Burglaries, vandalism, harassment and shooting became commonplace, and the Lemonses became increasingly dismayed.

Any toys left outside were stolen, their swimming pool was "poked full of holes and my new car was shot up all over with BB guns," says Steve.

"I kept asking myself, 'Why work like a dog every day only to come home and lock yourself up in your home?' I never knew what to expect in the neighborhood, and I was always tense about my family's safety. I was getting an ulcer from living in a constant state of fear."

Worth the costs: In June, 1975, the Lemonses made their long-awaited escape. They bought a home 25 miles outside the city, in a neighboring county. It is situated on several acres of land, which Joyce calls "our own small corner of the world, where no one bothers us."

Steve, who earns $16,000 a year as an auto-parts salesman, says his house payment is three times more than his city rent, "but it's well worth it." Also, he's closer to his work. He adds:

"Never under any circumstance would I move back into the city. I would change jobs and leave the State first. I was raised in a nice, clean neighborhood, but what I left was a ghetto.

"I don't have the answers to Chicago's problems, but I do know that a lot of the people who helped make the city's neighborhoods strong are now leaving."

"We Feel More Like a Family": When Mr. and Mrs. Edward Cox decided to move into a lake-front condominium in Chicago, they wondered if they were making life more difficult for their sons, ages 6 and 10. The boys were used to a large house, a yard, a good public school and friends who all lived close by in South Holland, Ill.

The Coxes' fear proved unfounded, they say. The boys have enjoyed their seven months in Chicago's luxurious downtown area. They swim in an outdoor pool at their building and in a nearby indoor pool in bad weather. They have made friends quickly, play in the huge lake-front park and take art courses sponsored by the park board. The public school they attend is rated as one of Chicago's best.

Mrs. Cox says she actually feels safer in their new home, as compared with South Holland, where she was afraid to go out walking alone after dark.

"Here, streets are well-lighted and there are always policemen visible," she says. "The fact that people are active at all hours in this area makes you feel safe."

Mr. Cox is marketing director of the real-estate company that owns the condominium the family lives in. He hated commuting from South Holland, a 90-minute drive to his city office.

Before moving to Chicago, he was considering building a larger home farther out in the country. But then he began thinking about the yard work and commuting time and decided to see if city life agreed with the children.

Easier living: Grocery shopping is easier now for Mrs. Cox. A store in the apartment building provides immediate needs, although prices are a little high. Costs are more reasonable at a supermarket that's within walking distance.

"We sold our second car," says Mrs. Cox. "I walk everywhere and so do my sons. I think it's healthy. In the suburbs I was always driving them somewhere. There wasn't much time to develop my own interests."

The Coxes find living expenses to be lower in the city. And both parents have more time to spend with their sons.

"We feel more like a family, now," says Mrs. Cox.

"It Costs Us More . . . but It's Safer": When Joshu and Manju Patel and their two young children moved into Chicago's Rogers Park area in 1973 and rented an apartment, they did so with the thought that they would someday buy a home in the city. But they found that wasn't to be.

Rogers Park seemed like a safe neighborhood, and it wasn't far from Chicago's

	Detroit	Cleveland	Yonkers	Newark	Boston	Baltimore	Buffalo
Unemployment Rate	(Dec.75) 17.4		(Nov75) 10.8				16.9
Total Budget FY 75-76	808.0 Million	324.8 Million	124.0 Million (with School)	209.8 Million (1/75-12/75)	661.0 Million (with school)	1,425.5 Million (with schools)	480.0 Mil
Federal Revenue Sharing	39.5 Mill.	16.0 Mill.	1.6 Mill.	8.7 Mill.	25.0 Mill.	27.0 Mill.	8.2 Mill
State Revenue Sharing or Aid	67.2 Mill.	-	10.2 Mill.	2.5 Mill.	140.0 Mill.	-	21.4 Mil
Projected Deficit	44.3	0 22.	8.5 Mill.	5.5 Mill.	33.0 Mill.	0	34.0 Mil
Previous Year Carry over	17.2	0	6.5 Mill.	0	14.7 Mill.	0	20.0 Mil
Highest Level of Employment	19,942 (1/75)	13,000 (1970)	5,500 (1975)	6,100 (1/75)	23,327 (2/1/74)	31,000	6,330 (19
Present Level of Employment	18,314 (12/75)	10,992	4,683	5,100	14,282	32,882	5,250
Projected Level 7/1/76	?	10,800	4,500	4,900	13,700	32,882	4,050
CETA Employment (Current)	2,864	1,700	?	?	1,310	200	1,600
Areas of Past Employer Reduction	Across the Bd.	Waste,Health, Rec, Finance	Across the Bd.		Across the Bd.		Mostly garba Parks but Across the B
Areas of Anticipated Employee Reduction	Across the Bd.	Recreation & Property	Across the Bd.		Parks & Rec.		Pks. to go o of business
Shorter work week							Yes
Work Without Pay							
Reduced Services				Mounted Squad Disbanded			No backyard garbage
Closed Facilities			Library, Museum shorter hours		Printing plant closed		Closed Parks Rec Centers

	Detroit	Cleveland	Yonkers	Newark	Boston	Baltimore	Buffalo
Pay Freeze		Municipal increase negotiated	Pay freeze 11/75				
Pay Cut							
Tax Increase		Referendum Rejected by voters	Real Prop. Tax increased to max.				
Bonding Operating Exp or Tax Anticipation Notes			8.5 Mill.	15.0 Mill.	85.0 Mill.		54.0 Mill.
Interest Rate			9. 0 %	8.75 %	7.30 %		9.0%

	Seattle	Atlanta	Philadelphia	Saginaw	Flint	Grand Rapids	Royal Oak
Tax Increases		Prop. Tax Increase In 1974	Tax increases in virtually all categories				Prop. Tax Increase 3 mils. for 5 years
Bonding Operating Exps. or Tax Anticipation Notes Interest Rate			100 Million				

GERALD R. FORD LIBRARY

	Seattle	Atlanta	Philadelphia	Saginaw	Flint	Grand Rapids	Royal Oak
Unemployment Rate	8.8	12.0	(Metro) 9.4	(Jan.76) 8.5		12.0	
Total Budget FY 75-76	279.9 Million	130.5 Million	1,160.0 Million	36.6 Million	49.9 Million	?	13.0 Mill
Federal Revenue Sharing	-	7.0 Mill.	52.2 Mill.	2.7 Mill.	4.2 Mill.	3.5 Million	.5 Mill.
State Revenue Sharing or Aid	8.7 Mill.	2.5 Mill.	-	2.6 Mill.	5.1 Mill.	6.9 Mill.	2.2 Mill.
Projected Deficit	0	0	80.0 Mill.	0	0	0	3.0 Mill.
Previous Year Carry Over	0	0	11.0 Mill.	0 0	0	0	part of Mill.
Highest Level of Employment	12,000 (1973)		35,000	1,073	2,000	2,517	461
Present Level of Employment	9,090		35,000	1,073	2,000	2,447	451
Projected Level 7/1/76	9,090		35,000 ?	1,073	1,800	2,447	451
CETA Employment (Current)	600				400	417	74
Areas of Past Employee Reduction	Across the Bd.				Across the Bd	Across the Bd	
Areas of Anticipated Employee Reduction	Across the Bd.				Across the Bd.		
Shorter Work Week							
Work Without Pay							
Reduced Services							
Closed Facilities			Close Hospital				
Pay Freeze			Freeze being negotiated				
Pay Cuts							