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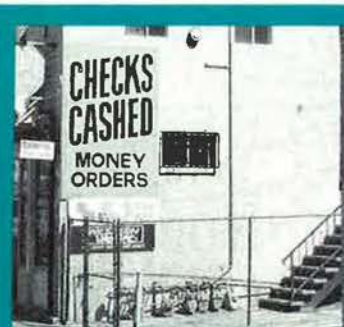

LOS ANGELES, CALIFORNIA

Recommendations for the Establishment of A Multibank Community Development Corporation for Economic Development in South Central Los Angeles

August 16–21, 1992
An Advisory Services Panel Report
ULI–the Urban Land Institute
625 Indiana Avenue, N.W.
Washington, D.C. 20004

ABOUT ULI– THE URBAN LAND INSTITUTE

ULI–the Urban Land Institute is a nonprofit education and research organization that is supported and directed by its members. Its mission is to provide responsible leadership in the use of land to enhance the total environment.

ULI sponsors educational programs and forums to encourage an open international exchange of ideas and experience; initiates research that anticipates emerging land use trends and issues; proposes creative solutions based on this research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development.

Established in 1936, the Institute today has approximately 16,000 members and associates from 40 countries representing the entire spectrum of the land use and development disciplines. They comprise developers, builders, property owners, investors, appraisers, planners, attorneys, engineers, financiers, academicians, students, and librarians. ULI members contribute to higher standards of land use by sharing their knowledge and experience. The Institute has long been recognized as one of America's most respected and widely quoted sources of objective information on urban planning, growth, and development.

Much of the Institute's work is accomplished through its councils, which include:

- Community Development Councils
- Commercial and Retail Development Councils
- Development Regulations Council
- Development Infrastructure and Services Council
- Industrial and Office Park Development Councils
- International Council
- National Policy Council
- Recreational Development Council
- Residential Development Councils
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This Advisory Services panel report is intended to further the objectives of the Institute and to make authoritative information generally available to those seeking knowledge in the field of urban land use.

Richard M. Rosan
Executive Vice President

ULI PROJECT STAFF

Diane R. Suchman
Consultant
Advisory Services

Adrienne Teleki
Panel Coordinator
Advisory Services

Nancy H. Stewart
Managing Editor

Ann Lenney
Copy Editor

Helene Y. Redmond
HYR Graphics
Computer-Assisted Publishing

Jeffrey Urbancic
Artist

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PANEL MEMBERS AND STAFF

PANEL MEMBERS

Claude Ballard, Chairman
Limited Partner
Goldman, Sachs & Co.
New York, New York

Jose Barragan
President
International Investors Group, Inc.
Houston, Texas

Dana H. Crawford
President
Urban Neighborhoods, Inc.
Denver, Colorado

Robert Engstrom
President
Robert Engstrom Companies
Minneapolis, Minnesota

James Fletcher
President
South Shore Bank
Chicago, Illinois

C. Robert Kemp
Opportunity Funding Corporation
Washington, D.C.

Vincent Lane
Chairman
Chicago Housing Authority
Chicago, Illinois

Maureen McAvey
Director
Coopers & Lybrand
Boston, Massachusetts

Victor Miramontes
President
CMK, Inc.
San Antonio, Texas

Marc A. Weiss
Director, Real Estate Development Research Center
Columbia University
New York, New York

Mark Willis
President
Chase CDC
New York, New York

ON-SITE ULI STAFF

Marta Goldsmith
Staff Vice President
Advisory and International Services

Diane Suchman
Project Director

Adrienne Teleki
Associate
Advisory Services

FOREWORD: THE PANEL'S ASSIGNMENT

Panel Chairman Claude Ballard leads the presentation.

This ULI Advisory Services panel was conducted in Los Angeles from August 16 to 21, 1992, as the first in a series of ULI efforts to assist the city of Los Angeles in the wake of the recent civil disturbances there. The city asked the panel to evaluate a proposal to establish a multibank community development corporation (CDC) for the purpose of spurring business growth in the troubled South Central Los Angeles area. The panel's assignment included critical review of the work in progress and recommendations for the structure and governance of the CDC.

In December 1990, the Los Angeles City Council established the Los Angeles Community Reinvestment Committee (LA/CRC) to devise ways of stimulating the provision of needed bank services in low-income and minority communities. LA/CRC is composed of city staff, community members, and representatives of major banks and savings and loan associations. Among LA/CRC's recommendations was that the city and the banking community explore the feasibility of establishing a multibank CDC for economic development, and discussions between LA/CRC and the banking community had been underway for over a year at the time the ULI panel arrived in Los Angeles. During that time, substantial research had been done, and a draft proposal for the establishment of the CDC had been prepared. The LA/CRC envisioned that the CDC would provide funds for economic development and small business loans to the same target market and income groups whose housing needs are being addressed by the California Community Reinvestment Corporation (CCRC).

Eleven panel members and three ULI staff members were selected to accomplish this week-long study, with the panelists donating their time on behalf of ULI and the citizens and city of Los Angeles. To prepare the panelists for their assignment, the office of the chief legislative analyst of the city council prepared for them an extensive background briefing book. Work began with an organizational meeting on Sunday, August 16. On Monday, city staff briefed the panel on its assignment and conducted a tour of the South Central study area that included lunch at Jordan's restaurant. On Tuesday and Wednesday, the panel divided into teams and interviewed more than 70 neighborhood, governmental, and business representatives. Wednesday evening and Thursday were devoted to discussions of strategies and recommendations and to preparation of the presentation and report.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

SUMMARY OF RECOMMENDATIONS

The panel recommends that plans for the CDC go forward with the specific purpose of making investment capital available to small businesses in the target area, especially to those that create jobs for area residents. The CDC should primarily make equity investments that can also help qualify the businesses for traditional debt financing.

The panel emphasizes that the CDC is intended neither to replace traditional financial institutions nor to fill the need for banking services within the community.

The panel's recommendations for establishing the multibank CDC include the following:

- Public and private resources should be concentrated and coordinated in up to four specific target areas within South Central Los Angeles as part of a larger community development strategy. This will enable CDC efforts to complement and enhance the efforts of other public and private groups and to leverage other investments.

Many businesses were destroyed during the civil disturbances in April and May of 1992.

Frankie Banerjee, assistant chief legislative analyst, briefs the panel on its assignment.

- The CDC should serve small business firms and not-for-profit organizations that meet the CDC's investment criteria and that would have a positive impact on the target communities. Positive impact could be realized through, for example, the creation of jobs, the location of jobs within the community, or the provision of a needed service.
- The CDC should provide equity or soft loans that may have a subordinated position. Equity could be the sole means of financing in a deal or could be used to qualify the small business firm for traditional debt financing. The CDC could also provide partnership or joint financing that would leverage dollars from other programs.
- The CDC should be organized as rapidly as possible, beginning now. Participating banks must capitalize the CDC with a minimum of $5 million to start. The panel's timetable for action anticipates that the CDC will be underway by January 1993 and that its assets will grow to $25 million or more within two years.
- Marketing the CDC to candidate businesses in the target area will require an extensive public information program. To strengthen the social fabric of the neighborhood, CDC outreach programs should include supportive and educational programs targeted at the youth of the community.
- Technical assistance in the financial management of small business must be available (outside the CDC's operating budget), and all firms receiving CDC funding must obtain such assistance.
- The CDC's board of directors should be composed of top corporate and community leaders, including senior executives from the banks providing the initial CDC capital; experts in community economic development; and members of the South Central Los Angeles community. This last category should constitute at least one-third of the CDC's board.

This community advisory board should be composed of leaders from the targeted neighborhoods and should meet regularly with the CDC management and staff. The CDC board's loan and investment committee should consist of bankers and other financial professionals.

- The CDC should be run as a business by a professional staff that understands community banking and is familiar with the target neighborhoods. To attract a high-caliber professional president, the CDC must pay a competitive, private sector salary and benefits.
- Over time, the CDC should become self-sustaining, make a profit, and increase its pool of funds by attracting additional capital and by recovering its equity investments.

The panel stresses that the CDC is not intended to solve all the problems of South Central Los Angeles but, rather, is one of many small steps that, taken together, can create a stronger, healthier economic climate and a more stable place in which to live and work.

OVERVIEW OF ISSUES AND OPPORTUNITIES

The South Central Los Angeles area is bounded on the north by Pico Boulevard and I-10, on the west by Van Ness and Arlington avenues, and on the south and east by the city limits (not including the Harbor corridor). The area includes two city planning districts of eight subareas, which cover a total of 30 square miles (over 19,000 acres) with more than 8,000 places of employment. Its population of more than 500,000 is predominantly Latino and African American. Though area household incomes average half that of the city as a whole, the aggregate annual income of the 175,000 households in the study area is approximately $3.5 billion.

The panel found South Central Los Angeles to be a vast area with relatively low-density land uses, diverse cultures, and busy streets peppered with numerous businesses and more active commerce than recent negative publicity leads one to expect. Compared with those in similar communities in other cities, the land and home values in the study area are relatively high. Many business development organizations and government officials are concerned about the area and are eager to help improve it. Most importantly, many local residents care about their neighborhood and its future.

At the same time, the panel saw remnants of the recent destruction, vacant buildings that once housed many jobs and prosperous businesses, and a land area of over 30 square miles without natural boundaries. The civil disturbances focused international media attention on the area, painting a dire picture of burned-out buildings and chaos. *Yet the panel's perception is that the image of South Central Los Angeles is worse than the reality.* While the problems are certainly serious, the community also shows great vitality. The area is vibrant and dynamic, though undergoing tremendous economic and social upheaval.

South Central Los Angeles was once a thriving industrial area, but today, many industries have moved out and much of the industrial space is vacant or underused.

COMMUNITY DYNAMICS

South Central is actually home to many communities—as many as 60 different enclaves or neighborhoods. Family businesses that have grown up, been passed to the next generation, and moved from block to block, have continued to serve customers for 30, 40, and even 50 years. As new residents have come to the area from Guatemala, El Salvador, and Mexico, they have started to build businesses, gather investments, raise families, and put down roots. Though some traditional and larger businesses have left, newcomers have bought stores and opened new markets.

South Central Los Angeles vibrates with activity, life, and change from block to block. Clear pockets or neighborhoods are difficult to define and are not easily drawn on maps or described by residents, business owners, or city planners. Change has been so rapid that established, stable neighborhoods are not the norm but the exception. The last ten years have been particularly dynamic, as both national and local forces have shaken the area.

In recent years, banks have closed their South Central Los Angeles branch operations, leaving the area without adequate banking services. However, the Broadway Federal Savings Bank, which was burned out during the recent disturbances, has reopened in an adjacent space.

First, along with the rest of Los Angeles, South Central has suffered a substantial loss of jobs in recent years. According to the latest employment estimates, Los Angeles County has lost about 300,000 jobs this year so far. During the high-growth years of the 1980s, the county gained 300,000 jobs per year. Thus, the magnitude of change in the number of jobs in the county is about 500,000 to 600,000 annually.

Structural changes in the economy have resulted in the downsizing, merging, or major restructuring of entire industries. Examples of this within Los Angeles include the airline industry, banking, and defense and defense-related industries. A once-thriving furniture industry is virtually gone. Metal treatment and decorative metalwork can no longer meet environmental requirements. Many of the jobs lost in these industries are not cyclical and will need to be replaced by new ones.

Area demographics have changed and continue to change. Many families have grown affluent and, seeking better housing, more easily procured goods and services, and a safer environment, have tended to move away. In their wake have come new immigrants and different cultures. An increase in the number of immigrants from Latin America and a recent proliferation of new businesses run by Korean immigrants have brought racial and cultural tensions; stress within and among communities is common. In addition, the recession has exacerbated the already active competition for such scarce resources as affordable housing and jobs.

Throughout the 1980s, housing prices in Los Angeles rose rapidly, fueling speculation and driving up rents. Homeownership rates declined, as they did nationally, and the average age of first-time buyers rose. As individuals felt the squeeze of their rent or mortgage payments more acutely, they had less disposable income left for starting new business ventures or expanding existing businesses.

Meanwhile, basic goods and services within the study area dwindled. Grocery stores, traditional banking services, and health care facilities are all available, but what exists is insufficient to serve the large population and land area.

Finally, increased gang activity and the proliferation of guns have caused residents, businesses, and financial institutions that have economic choices to abandon South Central Los Angeles. The commitment to community and the sense of common purpose and mutuality of interest have deteriorated. The widening gap between needs and resources has provoked widespread alienation, fear, and anger. Clearly, the issue of personal and property security must be resolved.

As discouraging as these indications are, however, the area does have distinct strengths that must be recognized and can be built upon. South Central has more resources than many comparably sized communities throughout the United States. The area's numerous neighborhoods include a variety of businesses, including service, retail, and manufacturing uses. Development infrastructure is in place; in fact, the infrastructure investments made here by the city of Los Angeles over the past 100 years represent tremendous amounts of time, money, and planning that would not be possible today. The problem, therefore, is not a lack of infrastructure or commercial activity but, rather, one of distribution and of access to resources and tools. For these resources and tools are needed to enhance opportunities for jobs, homes, and businesses.

ECONOMIC DEVELOPMENT IMPACTS

The dynamics highlighted above form the context in which economic development will have to occur. For many years, Los Angeles grew so rapidly that the city's concern was growth restraint, not job creation. As a result, although the basic infrastructure for economic development planning and implementation is in place, it is in its infancy in Los Angeles. Ten or 15 years ago, many other cities established extensive data banks, business development programs, one-stop business centers, permit expediting centers, business offices, and the like. But Los Angeles has been blessed with so much growth that these programs have remained small and unfocused.

Now, the city must change and adapt. The decade of the 1990s and the new century will require an aggressive approach to job retention and creation. National and international competition will build; cities and counties are outbidding each other for major corporations that bring with them the promise of new jobs. Wins and losses in this competition for economic development will affect several generations to come. Los Angeles and the South Central area have a chance to prepare for successful future competition.

THE NEIGHBORHOOD CONCEPT

The panel stresses that economic improvement must occur within a neighborhood context. Because the neighborhood unit should be the basic building block for economic revitalization, the proposed multibank CDC must have as its primary goal the enhancing and strengthening of the neighborhood where its investments will be made. The CDC should work with the city and with those private developers and service providers that are active in the area to foster a sense of "neighborhood": a small, cohesive, and self-supportive unit in which basic goods and services (groceries, banking, dry cleaning, and so on) are provided; where residents and businesses offer mutual support; and where it is safe to live and work.

LEADERSHIP

The problems that plague the South Central Los Angeles study area have produced a sense of hopelessness, frustration, and isolation among many residents and business owners. Substantial commerce and activity enliven the area, but little communication or cooperation takes place among its many communities. The time is right for strong, cohesive leadership to emerge.

In the public sector, in private companies, and within the community, the mantle of leadership is changing. Mergers, elections, retirements, and immigration have brought new faces and new opportunities for improved communications and relationships. The CDC can be one vehicle for easing these alliances.

And, to be effective, these new leaders will need to participate in the CDC and to be realistic about what success will demand of them.

PUBLIC SECTOR

This sector must lead the effort by initiating and stimulating neighborhood planning and by helping to develop a shared vision for the community. Not only the South Central Los Angeles community but also the larger city needs a vehicle for making decisions, allocating resources, and coordinating efforts in these times of scarce resources and competing interests. Only the public sector possesses this mandate. Tough decisions will be required, as, no matter how meritorious each need may be, not all needs can be met.

To obtain a balanced viewpoint, the panel conducted confidential interviews with dozens of public officials and private citizens.

Before the CDC can succeed, the public sector must reinforce and encourage CDC investments and activities through supportive public investments and activities. These might include targeting additional loan funds to the CDC priority areas, streamlining approvals for permits, or fast-tracking public improvements to support a given project. Whether the resources of the county, the city agencies, the CRA, the mayor's office, or the city council are needed, a vehicle must be developed for fast and effective decision making, and a commitment must be made to create a process that is flexible and that will encourage success, not impede it.

To assist the CDC's efforts, the city must substantially improve both real security and perceived safety through neighborhood-based policing and better community/police relations. As neighborhood precincts are established and areas perceived as more secure, economic investment will become more attractive, both to the private sector and to the assisted, or public, sector.

THE BUSINESS SECTOR

Business pressures, weakening economic conditions, internationalization of business, and adverse publicity have all restrained business leadership in community affairs. Unrealistic expectations—on the part of community groups, politicians, and even corporations—have added to the frustration of the corporate community. Long-term self-interest, nonetheless, requires that the banking and corporate sectors coalesce to improve local business conditions through neighborhood investment, increased security, job training and skill development, and education.

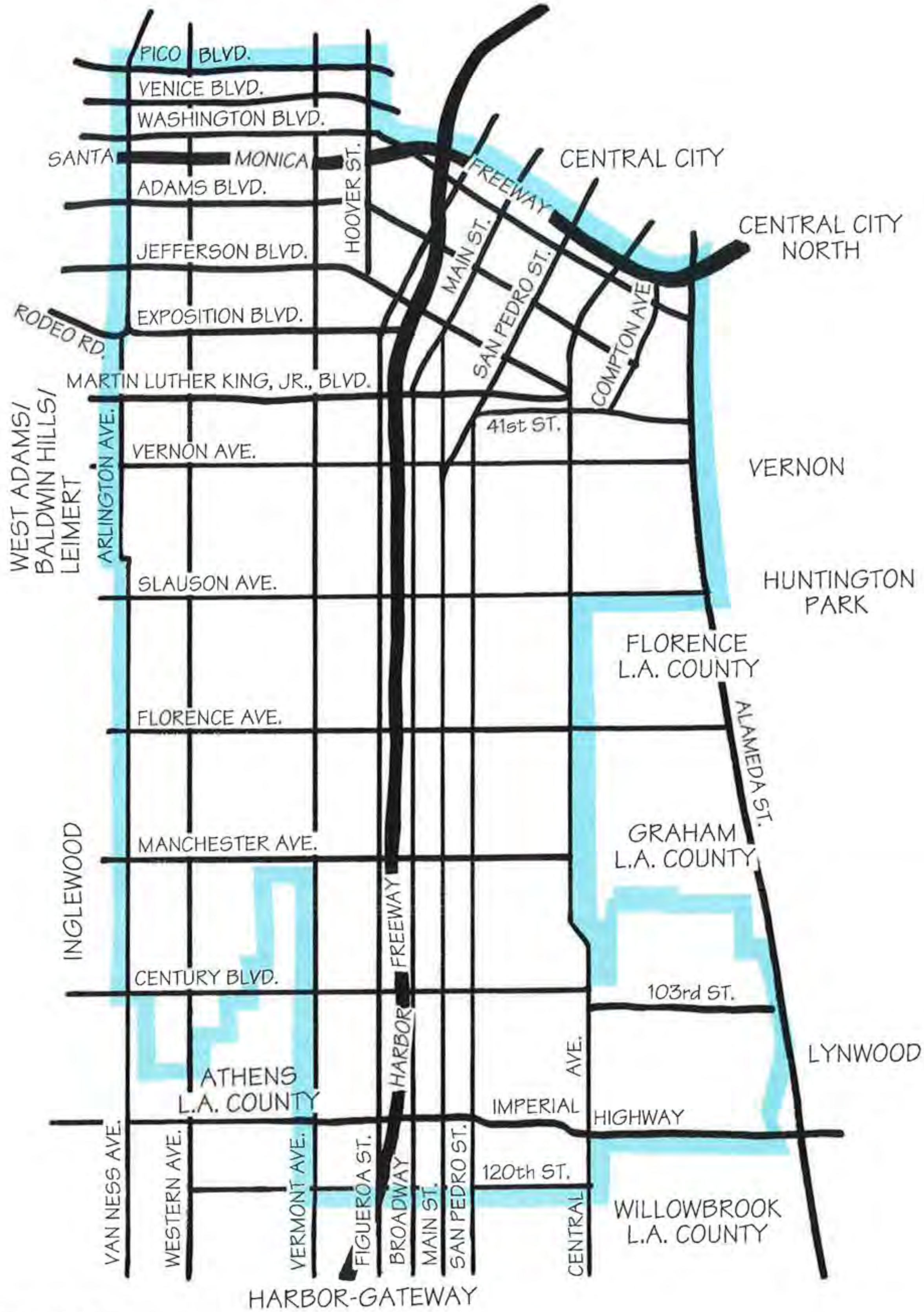
THE COMMUNITY

The local community can work with both business and government to accomplish the agreed-upon objectives. Community spokespersons must take a leading role in creating neighborhood plans, setting project priorities, determining realistic objectives, and communicating the risks, responsibilities, and rewards. Each of the multitude of neighborhoods within South Central must empower itself by identifying and nurturing its leaders; advocating its own needs; and communicating with other neighborhoods, the business community, and the public sector.

NEEDS ASSESSMENT AND MARKET ANALYSIS

The foundation of any needs assessment of South Central Los Angeles's financial services will have to be its existing commercial and community activity. The financial needs of older, more established businesses, as well as those of the national and regional firms located in the area, are already being met in some form; historically, many of the existing business owners who live outside the study area have done their banking downtown or in their home communities. While this has been an effective means of access to financial institutions for these people, it does not address the needs of the resident business owners within South Central.

The situation of the larger, established businesses has also been different in another respect. The larger businesses (many of which, however, have now had to downsize or move out because of economic pressures) have enjoyed access to more traditional types of loans because of their character—their large size, their large volumes of cash flow, their service to national markets, and the fixed assets they could borrow against. But what of the local, mom-and-pop businesses?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SANTA MONICA FREEWAY
ADAMS BLVD.
JEFFERSON BLVD.
EXPOSITION BLVD.
RODEO RD.
MARTIN LUTHER KING, JR., BLVD.
VERNON AVE.
SLAUSON AVE.
FLORENCE AVE.
MANCHESTER AVE.
CENTURY BLVD.
IMPERIAL HIGHWAY
120th ST.
103rd ST.
41st ST.
HOOVER ST.
MAIN ST.
SAN PEDRO ST.
COMPTON AVE.
ALAMEDA ST.
HARBOR FREEWAY
ARLINGTON AVE.
VAN NESS AVE.
WESTERN AVE.
VERMONT AVE.
FIGUEROA ST.
BROADWAY
MAIN ST.
SAN PEDRO ST.
CENTRAL AVE.
CENTRAL CITY
CENTRAL CITY NORTH
VERNON
HUNTINGTON PARK
FLORENCE L.A. COUNTY
GRAHAM L.A. COUNTY
LYNWOOD
WILLOWBROOK L.A. COUNTY
ATHENS L.A. COUNTY
INGLEWOOD
WEST ADAMS/ BALDWIN HILLS/ LEIMERT
HARBOR-GATEWAY

STUDY AREA

More importantly, the traditional sources of business liquidity—bank lines of credit—have been extremely difficult, if not impossible, for smaller businesses to tap. Access to these lines of credit has been limited because of banking regulations that bar banks from making unsecured or inadequately collateralized loans to any business. (Figure 1 ranks direct- and indirect-equity investments and various types of loans according to the degree of risk they involve.)

Clearly, a need exists for an alternative source of traditional lending or equity investment. A multibank CDC would fill a critical gap in the available, traditional sources of capital, acting as a catalyst and leveraging investment.

Figure 1
COMPARATIVE RISK TOLERANCES BY SOURCES OF CAPITAL

RISK	SOURCES
Highest	**Direct Equity** Personal Savings Home Equity Loans Family Loans
High	**Indirect Equity** Family or Friend Investments or Loans Government Demonstration Projects CDC Investments
Moderate	**Short-Term, High-Cost Loans** Banks—Unsecured/Personal Guarantees Banks—Secured with Soft or Specialized Assets Direct City Loans
Low	**Longer-Term, Lower-Cost Loans** Banks—Secured with Hard Assets Mortgage Companies—Seasoned Real Estate Companies Bonds—Large, Coordinated Projects
Lowest	**Loans, Joint Ventures, or Leases** Insurance Companies Pension Funds

FINANCING FOR SMALL BUSINESSES

Not only do the locally based businesses servicing the community face the same hurdles as do all small businesses; they also have very limited banking services to build on. Several decades ago, branch banks and bank locations serving local businesses began to leave South Central Los Angeles. Though not the primary cause of the dearth of banking services, the more recent downsizing and consolidation of the overall banking industry has speeded up this exodus. Thus, the unmet demand is for financing services for small, locally owned businesses.

Most direct investment in area small businesses has come from the traditional sources of personal savings and/or equity loans on personal residences. This type of activity exists within South Central and has been supported by relatively stable housing prices. However, given the income level of the area (50 percent of the citywide average) and the volume of personal savings, this type of investment has been relatively limited.

Some community residents have been more effective than others in pooling their resources for direct investments and have had success in establishing businesses here. But, on the whole, the more traditional indirect-equity investments from third-party investors and venture funds have been virtually nonexistent within the community.

FINANCING NEEDS

The panel's review of existing sources for targeted investment revealed that, though a number of programs have existed in South Central, the structure of these programs within the city government has made them virtually impossible to coordinate effectively. Because a small business person's most valuable asset is his or her time, many of these programs have not been used.

To meet the demand for financing in the region effectively, the current structure of programs must be radically changed. This modification would not necessarily entail loss of control or review by city authorities, but it would call for improved coordination of business services, so that a business person could do "one-stop shopping": At a single location, all matters affecting the development of that person's business could be handled.

In addition, the panel discovered, the owners of small businesses in this area often have difficulty understanding the financial system, which might otherwise be able to assist them: They need to know how and where to get available monies and how to go about packaging materials for loan applications. To initiate new business ventures and facilitate the ongoing marketing and growth of existing businesses, what is needed is technical assistance, advice on packaging loan applications, and information on mentor programs.

CONDITIONS THAT ENCOURAGE INVESTMENT

Now that Los Angeles finds itself in a sustained economic downturn for the first time since World War II, the city will have to compete for limited business investments and resources, not only with other southern California communities but with cities throughout the world. To compete effectively, the city of Los Angeles must improve its business development strategy. The idea is to model Los Angeles's programs after ones that have proven effective in other major cities.

Making these improvements in strategy will require:

- Elimination of duplicate programs and reviews.
- Coordination of administrative functions, such as zoning, permitting, and requests for variances.
- Streamlining and coordination of development approvals and permit processing, so that projects need not be reapproved by several agencies.
- Effective coordination of available resources, both human and capital, so that they complement rather than compete with or confound one another.
- Encouragement of investment in targeted projects by private financial institutions, such as locally owned community banks and credit unions.
- Encouragement of participation by regional corporate institutions, through purchasing programs and/or direct investments in targeted neighborhoods.

Moreover, coordination of financial services to a neighborhood must occur and must be supported by other forms of investment, including human and social. These "investments" will range from educational services and neighborhood policing programs to city services such as keeping streets clean and well lit.

The panel's recommended mission for the multibank CDC derives from the issues, opportunities, and financing needs outlined above and depends ultimately on the level and nature of the resources the CDC can tap.

MISSION

The panel recommends that the mission of the multibank community development corporation be to promote economic development in targeted neighborhoods, primarily by investing in small businesses—especially those that create and retain jobs within the community and provide improved business services that enhance the community's liveability and image.

The multibank CDC should be structured as a profit-oriented, long-term entity that serves low- and moderate-income communities. Its initial focus should be selected neighborhoods within South Central Los Angeles.

Widespread graffiti mark gang territory.

Panelists Robert Engstrom, Maureen McAvey, and Jim Fletcher work on their sections of the report.

The demand for small business loans is strong. Probably, every small business in South Central Los Angeles could benefit from additional working capital. The CDC's role, however, should not be to try and meet all of this need. Demand for all financing in South Central can only be met through a coordinated and consolidated effort that involves many different sources of financing; in contrast, the CDC's role will be to fill a specific financing niche: to provide the gap financing or limited inventory financing that is now unavailable from other sources.

The CDC must not only target its resources according to type of demand but also according to geography. It will not be able to tackle the business development needs of the entire study area at once. Initially, it must focus its efforts in a few, defined target areas, where concentrated public and private investment will be encouraged. As investment occurs in each target area, real progress will soon become visible. With success, these nodes of strength will grow and multiply until, over time, the borders of the target areas will expand and additional target areas will be added.

Across the city—particularly within the target neighborhoods and within the embryonic CDC—plans must be developed, timetables set, and tasks and responsibilities allocated. Local residents and businesses must develop neighborhood plans based on a local agenda; the city, through its participating agencies, must accept and agree to these plans, aware that the needs, plans, and timetables of different neighborhoods will, of course, differ. While all plans should be based on a longer-term vision for the future, the specific neighborhood plans must also be realistic and focus on what can reasonably be accomplished in that community within the next five years.

In short, the vision for each target neighborhood must consider what its residents want, what its security needs are, and what the local businesses can do within its boundaries. Once the vision for that neighborhood has been articulated, many local small businesses will be able to define more effectively, in the format of a business plan, what their own market niches are and will be.

PRODUCT DESIGN

The CDC will primarily make equity investments, which may be structured as soft loans with subordinated debt or equity features. The panel expects that provision of equity will help qualify the receiving business enterprise for traditional debt financing from institutions. Upon achieving viability, the CDC-financed enterprises will graduate to normal financial relationships. Meanwhile, the leveraging of equity through the CDC will make a material difference in business development and community revitalization efforts.

Properly structured loans, such as short-term inventory loans and ones secured by specialized equipment and/or properties, could be made more readily available through a multibank CDC. Longer-term, more traditional loans secured by fixed assets—either mortgages or long-term, seasoned commercial properties—can and should be financed through traditional avenues, such as locally based institutions or the traditional banks located throughout the Los Angeles basin. Finally, long-term forms of investment and joint-venture partnerships with large investors, such as insurance companies and pension funds, can be sought once a company has developed a track record and can meet the strict requirements of these types of lenders and investors.

Storefronts reflect the changing ethnic composition of the population.

The panel visited the historic Dunbar Hotel, which is being rehabilitated by the Dunbar Development Corporation, a community-based organization.

Design parameters for the CDC product are discussed below. Additional design parameters will, however, be required; these should be embodied in an investment policy adopted by the CDC's board of directors. The CDC should review its investment policy annually to determine adjustments, as needed to respond to changing objectives and community needs.

The CDC will be expected to provide a fair return to its investors. The pricing of the risk/return target should be established in the investment policy or strategy, once the capitalization of the CDC has been determined.

USES QUALIFYING FOR CDC FINANCING

Possible targeted uses of CDC financing include working capital loans, inventory loans, funding for real estate acquisition or improvements for a related business operation, equipment lease financing, and startup support. In fact, the CDC should allocate a small percentage of its capital for eligible startup enterprises, with the allocation level and types of startups to be outlined in the investment policy.

TYPES OF FINANCING

Types of CDC financing would include equity or soft loans that may have a subordinated position. Equity could be the sole financing in a deal or could be used to qualify a small business firm for traditional debt financing. One form of equity might be soft loans, possibly subordinated debt with an initial stage of low or deferred interest or principal payments but with profit participation or detachable warrants.

The CDC could also provide partnership or joint financing that leverages dollars from other loan programs—an approach that would, of course, entail working in concert with those other programs. In this case, the terms of any joint participation would be defined by a memorandum of understanding between the CDC and the other institution.

The panel also recommends that the CDC look for niche market opportunities in its community investments, consistent with a defined economic strategy. For example, it could help foster coordinated economic growth strategies for particular goods and services, such as environmental products.

TYPES OF FIRMS

The CDC's clients will be small business firms and not-for-profit organizations that meet the CDC's investment criteria and that would exert a positive impact on the target communities.

For instance, "small business" should be defined by sales, location, and/or number of employees: The CDC might rule that a firm must have a gross sales figure of less than $5 million, a maximum equity per employee of $20,000, a ratio of one-half or more of its employees living in the target community, and a location within the target area. Factors that indicate that an investment would have a positive impact on the target community might include creation of jobs, location of jobs, provision of a needed service, and similar factors.

Recognizing the important role played by not-for-profit community development and other organizations, the CDC should provide financing for qualifying business activities sponsored, developed, or owned by not-for-profit organizations.

TYPES OF INDUSTRY FOR TARGETED INVESTMENT

Given that the CDC investment policy will determine the desired allocation of available financing to various industry categories, criteria to consider in developing the CDC investment policy include giving preference, again, to those business enterprises that promise a positive impact on the target community. With this guideline, the preferred industry sectors should include manufacturing, retail (including franchises), wholesaling, personal services, business services, transportation services, and health or medical services.

The recent devastation has made rebuilding of the community's commercial areas imperative.

INVESTMENT POLICIES OF THE CDC

The panel makes the following suggestions to aid in the development of the investment policy and strategies.

One aim of the investment policy should be to achieve a diversified portfolio that involves allocating of funds to different industry sectors. The CDC should recall that financing provided by the CDC is intended to encourage community-based ownership of business enterprise and that the worthiest firms are those that will provide benefits to the targeted community.

Investment strategies should also support neighborhood and community development objectives. In this context, startups should be rated according to the benefits they could dispense toward community development goals; a startup providing a needed service would certainly warrant CDC financing.

An upper limit for any single investment should be set by the investment policy based on the total size of the equity pool. For example, the panel suggests that no less than $25,000 and no more than 10 percent of total equity capital be committed to any one business or obligor. Limitations on the amount invested per industry should also be set to ensure a portfolio that is diversified across industries; such limits should appear in the investment policy and should take into account the existing mix of firms within the target areas.

INVESTMENT CRITERIA AND REQUIREMENTS

The panel considers the following requirements to be the minimum ones to be met by an applicant before an investment decision can be made. Although the CDC should seek compliance with normal criteria to the extent possible, the panel recognizes the necessary limitations of many applicant businesses in the study area and believes that a firm's inability to meet these standards should not immediately disqualify its application. In some cases, substitute determinants of credibility should enable a firm to qualify for CDC investment despite its failure to comply with the usual criteria. Such mitigating factors will, of course, have to be defined.

With this understanding, then, the panel suggests that the CDC use these criteria to qualify a firm for investment:

- Completion of any preinvestment requirements for technical assistance, mentoring, training, or educational classes.

  Evidence of technical assistance absolutely must be provided as a condition of financing by the CDC. The panel suggests that the CDC describe a range of possible requirements to allow itself flexibility in applying this criterion on a deal-by-deal basis. Upfront technical assistance of some sort, however, must be required for each investment.
- Financial analysis, with minimum ratios to be determined and applied on a case-by-case basis.
- Collateral, wherever and however available.
- Liability insurance and, in many instances, keyman life insurance.
- A business plan, to include cash flow projections, profitability projections, market research, and a feasibility analysis.
- An evaluation of the applicant's entrepreneurial qualities.

  This step should include assessments of the entrepreneur's background, his or her previous experience in this particular business, and a determination of a skill level or competence needed to achieve the objectives as set out in the business plan.
- A credit review.
- Personal financial statements, possibly certified ones.
- Federal tax returns for the preceding three years; for years for which no business returns are available, personal returns.

- Minimum equity by applicant of 10 percent of the total amount being funded by the CDC and other sources of debt or equity.
  Substitution of sweat equity may be accepted on a case-by-case basis.
- Other criteria, as determined by the CDC board.

Once an enterprise has been chosen to be financed by the CDC, it should be required to receive ongoing technical assistance or other aid, as determined by the investment committee. This assistance or aid might take the form of continuing education courses in a given discipline. Also, monthly financial statements should be required of each business enterprise.

CDC PROFIT PARTICIPATION

As consideration for its investment, the CDC may be entitled to an ownership or profit participation. Such participation could be structured through corporations or through individually owned companies or partnerships.

CORPORATIONS

The CDC would invest in corporations through the purchase of securities of the target company. These might be voting or nonvoting securities, common or preferred stock, debentures, or the like.

The CDC should benefit from the realization of an improved return on its investment by being allowed to register its securities in the initial public offering. It can do this through registration rights, which will protect the CDC in the event that a particular enterprise realizes substantial upside potential and proceeds to an initial public offering.

Panelists Mark Willis and Robert Kemp work through an idea.

The CDC would provide to the owner the option to repurchase the securities held by the CDC. The owner would be encouraged to exercise this "call option" when the profitability or cash flow of his or her enterprise permitted, within a time limit set when the initial investment was made.

Correspondingly, the CDC would have the option to request the owner to purchase the security. The CDC would pursue such a "put option" when the enterprise had achieved a sufficient size, profitability, or cash flow to warrant exercising it.

INDIVIDUALLY OWNED COMPANIES OR PARTNERSHIPS

To protect itself, in contemplating investment in individually owned companies or partnerships, the CDC should examine and determine the provision of its own rights on default by the company. At a minimum, the CDC should require the organization to provide business principal, personal guarantees, and personal liability coverage, as appropriate.

DISTRIBUTION AND ALLOCATION STRATEGY

High on the exterior wall of the top floor of Los Angeles's City Hall is inscribed a 60-year-old quotation: "The government is the strongest of which every man feels himself a part." Although the new CDC is not a government, its fate similarly rests on the community it serves and on the sense of involvement and credibility it earns.

PUBLIC INFORMATION PLAN

Marketing the CDC concept will be necessary to the success of the new lending organization. A fully developed public relations program must be in place and underway at all times; otherwise, the CDC effort will not achieve its intended goals.

Methods for disseminating information will be the same as those used in all effective marketing campaigns: special events, media, mail, and public information/outreach. To succeed in this effort, the CDC staff, and especially the executives of its participating banks, must understand, espouse, and be truly committed to the underlying philosophy of the new CDC.

The CDC staff must be sensitive to language differences within the community it serves. In every CDC activity and oral or written communication, the language preferences of the individual or neighborhood being addressed must be accommodated.

Victor Miramontes explains a concept.

SPECIAL EVENTS

Special events can be effective in introducing the CDC and its services to the target community. People-to-people events, such as loan fairs and job fairs, are helpful in bringing interested parties together and providing information to attendees. Seminars and receptions are also useful as means of introducing the new opportunities afforded by the CDC. Each year, the CDC should hold an annual recognition event, such as a dinner to celebrate that year's accomplishments.

All events should be organized with care to highlight the ethnic and cultural diversity of the neighborhood and its examples of cross-cultural cooperation.

MAIL AND MEDIA

Flyers written in appropriate languages and hand-delivered by zip code should be used to announce the CDC and its products within target neighborhoods. Media outlets such as the following are useful to reach a broad base of potential applicants: *The Sentinel*, an African American weekly newspaper with a circulation of 174,000; L.A. *Opinion*, a Latino daily paper with a circulation of 100,000; newspapers that serve Asian or other constituencies within the target area; *The Los Angeles Times*; local radio and television (especially news and talk shows); and various citywide and community forums that make public service announcements.

To facilitate specific kinds of marketing efforts and to aid in follow-up, CDC staff will need to create and maintain a database with information on businesses in the target areas.

OUTREACH TO CIVIC AND OTHER ORGANIZATIONS

The CDC should provide certain groups with information on a continuing basis. These organizations might include consulates (to target specific immigrant or resident alien groups), community development centers, Concerned Citizens, chambers of commerce, business associations, local offices of the Small Business Administration (SBA), all city agencies, all banks and savings institutions (including branches of participating banks), all local and citywide economic development organizations, business schools, colleges, and trade schools. The CDC might also make the services of a small speakers' bureau available.

Because churches have become active in economic development issues, a special outreach liaison could be established to communicate with such churches within the target areas.

Marketing of CDC programs should routinely include the offer of information on where and how to obtain education or training in the basics of money, banking, credit, lending, and insurance; the CDC should be prepared to provide that information on demand.

Signs of decay, such as this pile of old tires beside an occupied home, are typical sights in South Central Los Angeles.

YOUTH OUTREACH

Riot activity in Los Angeles has clearly indicated a need for developing a meaningful link between the business community and the youth of the city, many of whom are now under the control of gangs. The CDC—in conjunction with the new, independent Community Financial Resource Center— could act as a catalyst for this linkage while engaging in its business outreach effort. Specific funding for youth outreach efforts should be solicited and provided outside of the normal CDC operating budget.

Examples of the kinds of programs that the CDC might initiate in the target areas include:

- A Part-Time Employment Bank. Because many businesses need part-time employees, the CDC could list the part-time employment needs of local businesses and establish an information and referral program through local schools and area youth organizations. The principle underlying this effort would be that area youth who have made positive contributions or chalked up solid accomplishments in school or the community should be rewarded with job opportunities.
- Student Internships. Through its outreach effort, the CDC could encourage businesses to offer student internships to promising students from the community and from local high schools. This program would introduce and attract participating youth to future careers. At the same time, it would give students a chance to obtain business experience while earning income and school credits.
- Team Sponsorships. The CDC could stimulate positive recreational programs for the youth of its target communities by linking interested businesses with existing recreational providers, such as the Los Angeles Parks Department, Boys' Clubs, youth centers, and so forth. The aim would be to form Little League baseball, soccer, and basketball teams. The businesses would sponsor the youth sports and provide the necessary uniforms, equipment, and volunteers.
- Education in Banking. Often, young people in disadvantaged communities have little exposure to financial institutions. The CDC should sponsor a series of "banking fairs" at target area schools by local banks that serve the study area. The objective of such fairs would be to help young people understand what banks are, how they work, and the relevance of these institutions to their own lives.
- Business Field Trips. The CDC could establish a network of entrepreneurs and businesses throughout the Los Angeles area to welcome students from South Central who are interested in visiting them on field trips. Such visits would expose students to the various kinds of business opportunities they might one day want to explore.
- Adopt-a-School or -Classroom. To encourage communication between businesses and students, the CDC might also promote the "adoption" of schools or classrooms within target areas by Los Angeles-area financial institutions and businesses.
- Junior Achievement. Los Angeles businesses could encourage budding entrepreneurs and foster the development of a work ethic by sponsoring Junior Achievement companies within the target areas.
- Scouting. Exposure to scouting programs is a well-established youth activity that builds character, affords beneficial exposure to other environments, and provides positive interaction with adults. The CDC should encourage the formation and sponsorship of scout troops by both businesses and financial institutions.

Liquor stores, which also serve as convenience stores and check-cashing facilities, are a common sight in South Central Los Angeles.

Marc Weiss and Jose Barragan complete their presentations.

POSSIBLE FINANCIAL PARTNERSHIPS AND JOINT VENTURES FOR THE CDC

The panel has stated that the CDC will be known by the sense of community involvement and credibility it inspires. Thus, it should leverage its limited resources by developing outreach programs for its products in conjunction with other community institutions. Leveraging other financial and nonfinancial resources would heighten the impact of the CDC on its target area while gaining partners for it in marketing its investments.

Most importantly, the CDC must establish a close working relationship with the newly established Community Financial Resource Center. While the CDC and the resource center are separate institutions, they could participate together in joint financing of businesses, and the resource center could provide technical assistance to businesses that the CDC has invested in or is considering financing. For instance, the CDC could encourage the resource center to develop debt products to fill unmet community business finance needs, such as a loan pool for short-term receivable financing.

In addition, the CDC should make use of existing banks, chambers of commerce, entities such as specialized small business investment companies (SSBICs), and technical assistance groups similar to those supported by the University of Southern California or the Small Business Administration. In particular, the CDC should explore methods of working closely with the three local, independently owned community banks in South Central; with the community credit unions in the area, both existing and yet-to-be-formed; and with community development organizations that serve particular neighborhoods in the target areas.

Other institutions that might work cooperatively with the CDC within the target areas are:

- The Small Business Administration. The CDC could develop a product designed to provide businesses with part of the equity required to meet the SBA's lending criteria. Such a move would increase the availability of SBA loans within the target communities.
- Food Wholesalers. To provide more capital for expanding or starting grocery stores or supermarkets, the CDC could work with the wholesale food industry to establish a program that would allow applicant businesses to leverage inventory financing.
- Franchises. The CDC could create a financing product in concert with franchisers to help reestablish franchises within its target areas. Such assistance might be in the form of reduced franchise fees for some period of time, reduced or deferred startup fees, or deferred payment of inventory purchases.
- Outlet for Sale of Businesses. In the aftermath of the recent disturbances, many business owners who are neither African American nor Latino may desire to sell their businesses to neighborhood residents. The CDC could create a financial product to allow deferred payment of the acquisition price and to encourage mentoring by the selling owner to the new owner.
- Churches. Some of the many churches located in South Central—especially those within CDC target areas—might consider assisting certain businesses owned by their members by providing soft debt or equity in conjunction with CDC financing.

Trash, tires, and debris now litter what were once active railroad tracks carrying commerce in and out of South Central Los Angeles.

RELATED PARTNERSHIPS AND JOINT VENTURES

Other organizations could participate with the CDC by offering or funding training programs in business and money management. As mentioned, training is critical to the success of small business, and the CDC will have to require recipients of its loan products to obtain appropriate training from approved organizations. Funding for this training might come from foundations, the city of Los Angeles, the corporate community, or the organizations that provide this service.

Insurance is another service that small businesses need, but in South Central Los Angeles, obtaining adequate insurance at a reasonable price is difficult. In cooperation with other organizations and with the state commissioner of insurance, the CDC should work to develop a pool of insurance that would be available to its target areas or, at a minimum, to its customers at reasonable, competitive rates.

Current and accurate financial statements are also important to the success of small businesses. The CDC should establish programs with a consortium of accounting firms to provide accounting services tailored to the needs of its customers at a cost lower than that of individual purchases.

The University of Southern California has within its business school a well-regarded entrepreneur program; through this program, USC also offers various kinds of education and training outside the traditional classroom setting. The CDC, while possibly working with USC to obtain training services for its clientele, might also work with USC's MBA students to extend the CDC staff's effectiveness in providing information to would-be entrepreneurs in CDC outreach and marketing programs and during special events.

IMPLEMENTATION

ORGANIZATION

The CDC should be organized as rapidly as possible, with a goal of commencing operations by January 1, 1993. Between now and January, the founding banks must invest an initial $5 million to capitalize the CDC, form a CDC board of directors and a community advisory board, and hire a CDC president. One of the first orders of business for the CDC board and president will be to design an investment strategy, performance criteria, and policy implementation guidelines for accomplishing the goals of financing economic and business development and community revitalization in South Central Los Angeles.

While gaining knowledge of existing bank CDCs in other cities may prove useful, the present organizational effort must be based on a strategy unique to the needs of the city of Los Angeles.

Vincent Lane and Dana Crawford consider a strategy.

Spots of beauty, such as Los Angeles County's Will Rogers Memorial Park, also dot the area.

The multibank CDC that the panel recommends to serve South Central should not be a copy of an institution formed elsewhere in the country. Development strategies don't travel well. However, selected features of other CDCs could be applied—for instance, the community involvement feature of South Dallas's CDC and the staff support ideas of Indiana and South Dallas, where management is shared with other small funding resource organizations (see Figure 2). Indeed, elements of the CDC proposed here do demonstrate lessons learned from other places, but this CDC must be uniquely fitted to Los Angeles and to the neighborhoods it serves.

Figure 2
CHARACTERISTICS OF SELECTED EXISTING BANK CDCs

	INDIANA[1]	OREGON	SOUTH DALLAS
Type of CDC	Multibank, for-profit	Single-bank, for-profit	Multibank, for-profit (Run by not-for-profit)
Community Involvement on Board	None	4 of 9 board members	33% of board members
Staff	1½ professional and 1 clerical[2]	Director	Director[3]
Additional Support	Banks' help with due diligence	Shared staff	Banks' help with due diligence
Product	Soft loans with kickers	Soft loan (second lien position)	Soft loans
Capitalization	$1 million + $9 million line of credit	$1 million	$2.5 million
Average Size (Range of Amounts)	$300,000 ($100,000–$750,000)	$30,000–$60,000 ($10,000–$250,000)	$75,000 ($25,000–$100,000)
Start Date	1986	1989	January 1992
Activity to Date (Number of Deals)	$10 million (30)	$610,000 (6 per year)	$450,000 (5)
Fees	4% to 5 % over prime rate plus profit kicker		1% commitment; prime rate plus 1%

[1]This CDC is now making money; 16 clients have bought out their loans, and only four loans have shown a loss.
[2]Seven people manage four funds.
[3]Eleven people manage four funds.

The CDC should be organized as a for-profit entity. Because the for-profit structure imposes market discipline and offers incentives for effectiveness, efficiency, and growth, this is the best structure to encourage long-term success. Equity shareholders in the CDC should expect a financial return on their investment, in addition to the economic and social returns the CDC will make to the people of Los Angeles.

The directors of the CDC could choose to promote faster growth either by reinvesting the profits or by paying out some of the CDC's earnings as dividends to shareholders, in order to attract additional equity investment. The CDC could also gain access to capital by issuing debt instruments: In fact, some financial institutions and corporations might prefer to invest in this form.

CAPITALIZATION

To address effectively even a small portion of the economic and social needs of South Central Los Angeles, the CDC must have sufficient capital. The panel recommends that the CDC make plans for its long-term growth, with a level of capitalization of at least $25 million to be reached within a two-year period.

To start operations, the CDC needs a minimum of $5 million in capital, and these funds should be raised immediately from the banks participating in the Los Angeles Community Reinvestment Committee. By October 1 of this year, the entire $5 million should have been received by the CDC.

The investor banks should proceed promptly to incorporate the CDC, obtain regulatory approval, form a board of directors and community advisory board, and hire a president by January 1, 1993.

Panelist Robert Kemp notes comments during the presentation.

As the CDC moves to broaden its base of investors, the initial $5 million in capital should increase to $10 million within one year and to $25 million within two years. By the second year, the CDC should begin to receive income from interest, loan repayments, and returns on its equity investments in small businesses and community enterprises.

The CDC should not limit itself to capital expansion from the group of founding banks. It can and should be structured to receive equity capital, as well as loans from other national banks, state banks, savings institutions, insurance companies, pension funds, corporations, foundations, and many other entities, including individual investors. This could be arranged legally and should be encouraged, as such an arrangement would allow the CDC to grow by drawing from a wide base of capital support.

Parts of South Central Los Angeles are characterized by inappropriate adjacent land uses.

Maureen McAvey listens attentively to a question during the panel's presentation.

GOVERNANCE

The CDC's board of directors should be composed of top corporate and community leaders, including senior executives from the banks providing the initial CDC capital, other financial and corporate leaders from the Los Angeles area, experts in community economic development, and members of the South Central Los Angeles community who play a leadership role in the churches, community organizations, businesses, service-provider organizations, schools, and civic groups. The South Central leaders should constitute at least one third of the CDC's board of directors.

The community advisory board should be composed of leaders from the targeted neighborhoods and should meet with the CDC management, staff, and executive committee at least once every four months to discuss economic development issues and ways to improve management performance. The CDC board's loan and investment committee should consist of bankers and other financial professionals.

STAFFING

It is absolutely essential that the CDC attract a first-rate staff, starting with a president of the highest caliber. To attract such a professional, the CDC must pay a competitive, private sector salary and benefits. It also must include provisions for incentive pay and for annual bonuses based on successful CDC performance and on accomplishing long-term growth objectives.

The president of the CDC should have financial experience but need not be a banker. She or he should also have experience with community economic development, understand and be sensitive to community needs and issues, and show a genuine commitment to and passion for urban revitalization. Given the nature of the task, he or she should preferably be from one of the ethnic groups that predominate in the target area, as well as possessing previous knowledge and experience of Los Angeles, possibly as a current or former resident. Most importantly, the president must be a highly effective and entrepreneurial professional.

A nationwide search with emphasis on the local area should be conducted through executive search firms and community institutions. The search committee should be appointed by the CDC's board of directors and include community representatives.

Numerous storefront churches, many providing social services, have located along commercial streets.

When the president takes over and begins hiring the CDC staff, key factors to consider in forming the team will be ethnic, racial, and gender diversity; community sensitivity; financial or business management skills; and expertise in urban revitalization. The staff should be capable of energetic product marketing and motivated to achieve aggressive growth. To this end, marketing and outreach specialists should be hired along with investment and loan officers.

Some of the personnel necessary for these labor-intensive efforts could be executives on loan from the participating banks (see box). The banks, other companies, and the local government should be asked to contribute personnel and in-kind services.

BANKS PARTICIPATING IN CAPITALIZING THE LOS ANGELES MULTIBANK CDC (As of August 20, 1992)

Bank of America
City National Bank
Dai-Ichi Kangyo Bank of California
First Interstate Bank of California
Manufacturers Bank
Sanwa Bank
Security Pacific National Bank
Tokai Bank
Union Bank
Wells Fargo Bank

In the absence of traditional banking services, facilities for cashing checks have proliferated.

LEVERAGING RESOURCES

For the CDC to succeed, it must work closely with many other private, public, and community institutions to achieve the maximum leverage on the relatively modest level of resources it has available for business investment. This will require: 1) a coordinated economic strategy, and 2) full partnership with the local government—the mayor, city council, and all agencies ranging from the community development department to the community redevelopment agency.

The panel recommends that the city commit targeted resources for infrastructure improvements, service expansion to promote safety and security, one-stop permit expediting to support business development, and job training and related social services to enhance the skill levels and availability of the quality workforce that will be needed for successful entrepreneurship. Before this community partnership can grow and thrive, the bank CDC must be able to rely on the city to fulfill its commitments, as the city must be able to rely on the banks.

City Councilman Mark Ridley-Thomas responds to the panel's presentation.

DIRECTIONS FOR GROWTH

The CDC board and staff, under the leadership of the CDC president, will initially choose up to four neighborhoods within South Central Los Angeles to target strategies for economic development and to concentrate the CDC's investment activities. As the CDC expands, it will include additional areas for targeted concentration of resources.

The initial areas should be chosen in collaboration with the community, the city government, and the private sector. In formulating the criteria for selecting these target areas, the CDC should consider the existing community development districts designated by the city and the redevelopment authority; other candidate neighborhoods should be ones with strong community development and neighborhood planning organizations that are already working with the Local Initiatives Support Corporation (LISC) and with other corporations and foundations in the Los Angeles Collaborative for Community Development. The target areas will have to be sufficiently compact so that resources can be effectively directed.

By focusing on specific target areas, the CDC—and the city—will be able to concentrate expertise as well as financial resources. To succeed in community lending, the professional staff must know the community, the neighborhoods, and the people who live in them. With time and experience, this kind of knowledge will raise the shared success rate to a level that makes good sense to the investors and yields good returns to the banks and the community.

ABOUT THE PANEL

CLAUDE BALLARD
Panel Chairman
New York, New York

Ballard joined Goldman Sachs & Co. in 1981 as a general partner and as of November 1988 became a limited partner and senior consultant. Before joining Goldman Sachs, he was senior vice president in Prudential Insurance Company's real estate investment department and a director of several of Prudential's subsidiaries. Ballard is a member of the American Society of Real Estate Counselors and The Appraisal Institute.

Activities in higher education include membership in New York University's Real Estate Institute and the former chairmanship of its Real Estate Advisory Council. Ballard is a member of the overseers' visiting committee for the Graduate School of Design at Harvard and the former chairman and a current member of the advisory board of the Real Estate Center at the Wharton School of the University of Pennsylvania.

Ballard is chairman of the board of directors of Rockefeller Center Properties (NYSE) and Merit Equity Investors; a member of many boards of directors; a former public governor of the New York Insurance Exchange; and a former member of HUD Secretary Landrieu's commission entitled "U.S. Development Choices for the '80s."

A past president of the Urban Land Institute, Ballard is a former president of the Urban Land Research Foundation. He now serves on the ULI Board of Trustees and Executive Committee.

JOSE BARRAGAN
Houston, Texas

Barragan is president and CEO of International Investors Group, Inc., a real estate development firm in Houston and Monterrey, Mexico. He is responsible for the firm's operations in the United States, where the company has been making investments for 16 years. The combined assets developed and managed by the principals of International Investors Group and its direct affiliate, Allied Properties, Inc., exceed $400 million. Currently, the firm has three apartment projects, two residential lot subdivisions, and a light industrial park under development in the United States. In Mexico, the group is developing a 29-story office tower, a hotel, and a residential subdivision.

Barragan has been a director of Greater Houston Bank and is currently director of Internacional de Inversiones SA, Desarrollo Vertical SA, Group Coterra SA, Allied Properties, Inc., Investment Constructors, Inc., and Lake Cove Development, Inc.

DANA H. CRAWFORD
Denver, Colorado

Crawford is president of Urban Neighborhoods, Inc., of Denver. The developer of Larimer Square and the Oxford Hotel, Crawford has recently introduced and presold 70 "loft condos" in historic buildings. One of Crawford's projects, the Design Center at the Ice House, is the renovation of a cold storage warehouse into design showrooms. In total, Crawford has developed more than 800,000 square feet of historic properties valued at more than $50 million.

Crawford serves on the board of the Public Market Collaborative, a national group charged with the revitalization of our nation's markets. She sat for nine years on the board of the National Trust for Historic Preservation and 27 years on the Denver Partnership Board. She also serves on the National Board of Projects for Public Spaces.

CONCLUDING COMMENTS

Recognizing that banks normally limit their investments to the extension of credit through loans, the panel is impressed with the willingness of these banks to entertain the notion of funding a multibank CDC specifically set up to make equity investments and loans with equity characteristics to small businesses. Banks are not generally allowed to take equity positions. Yet banks do have a strong interest in the well-being of their communities. Their staffs and their customers come from throughout their communities, and unless all parts of those communities prosper, the overall business of the banks is likely to suffer.

Eventual prosperity will have a direct impact on the growth of the regular depository and lending operations of the banks involved in the CDC. By funding this pilot project, these banks are willingly embarking on an exploration of new ways to help revitalize troubled areas of their own community and, at the same time, to strengthen the economic base on which their own long-term success depends.

This concern for the well-being of the community at large should not be and is not limited to the banks alone. Therefore, the panel hopes that other industries and firms will similarly recognize the value of this effort and step forward to invest significant dollars in it.

The CDC should be part of a larger, comprehensive strategy that the city undertakes for neighborhood revitalization. Its mission should be to effect change. If the purpose of this effort is not change, if conditions are to remain the same or even similar after the commitment of these dollars, then all the time, money, and effort spent will have been wasted.

Like any business, to succeed the CDC must have sufficient capital, commensurate with the size of the problem in Los Angeles and particularly in South Central. Management must be of the highest caliber and it must be at-risk. There must be return, both financial return for the investors and developmental return for the city and residents. And the residents must be able to measure success in the development of business enterprises, in the creation of new jobs, and in the realization that things are getting better rather than worse.

The CDC must be a self-sustaining, long-term business effort, without starts and stops. Development is a long-term process, and the problems of South Central Los Angeles cannot be solved in the next two years, five years, or even ten. Governments change; issues that are important today may fade tomorrow. But if the CDC is a profitable operation, oriented in businesslike fashion to the bottom line, it will continue through this administration, the next one, and those that follow.

Returns need not be great. The watchword for this effort should be: "Promise little but deliver much." (The CDC cannot—and should not—attempt to solve all problems of disadvantaged neighborhoods, but it can be an energetic and genuine beginning. Small, successful steps lead to a changed environment over time. Given all of the attention focused on South Central Los Angeles today, the CDC can demonstrate how to make one effort work—with discipline, a well-conceived yet creative plan, and a commitment not only to lead but also to swell the crowd of followers.

ROBERT ENGSTROM
Minneapolis, Minnesota

Engstrom is president of Robert Engstrom Companies, a multidisciplinary firm with extensive experience in the site planning, design, construction, marketing, and development of single-family detached homes and townhouse/multifamily communities. Current development projects include Summit Place, a two-and-one-half-block restoration and infill development in a previously deteriorated neighborhood of St. Paul, and 300 to 400 single-family homesites in the Twin Cities.

Engstrom is a trustee and member of the ULI Executive Committee and is past chairman of the Membership, Education, and District Council Committees and of the Residential Council. He is the author of the ULI book *Planning and Design of Townhouses and Condominiums*. Engstrom received the first Robert M. O'Donnell Award for distinguished panel advisory service in 1988.

JAMES FLETCHER
Chicago, Illinois

Fletcher is president of the South Shore Bank and a member of the management committee of Shorebank Corporation. He joined the corporation in 1978 as president of two of this one-bank holding company's subsidiaries: the Neighborhood Fund, Inc., a minority- enterprise, small business investment company; and the Neighborhood Institute, a not-for-profit, community-based social and economic development organization. Prior to joining South Shore Bank, he was with Hyde Park Bank and Trust Company in the capacities of associate director and director of the urban development lending division. He served for seven years as senior vice president and board member of the Hyde Park Bank's minority enterprise small business investment corporation (MESBIC)and of The Urban Fund.

In 1963, Fletcher joined the Chicago Committee on Urban Opportunity as an urban planner for the city's War on Poverty. Later he held the position of CAP (Community Actions Programs) assistant regional administrator for program planning, budget, and evaluation at the Midwest Regional Office of Economic Opportunity. Currently, he holds many directorships and sits on the loan review board of the Illinois and Michigan Canal National Heritage Corridor.

C. ROBERT KEMP
Washington, D.C.

Kemp is president and CEO of Opportunity Funding Corporation (OFC), a diversified financial investment institution. Within the OFC Group, an effective network of affiliated organizations, he is chairman of OFC, Inc., an investment holding and management company; chairman and CEO of Fulcrum Venture Capital Corporation, a specialized small business investment company; chairman of Syndicated Communications, Inc., a communication investment company; and chairman of Family Savings Bank, FSB.

Before joining OFC, Kemp was executive director of the Interagency Council for Minority Business Enterprise, with principal responsibility for business policy formulation and coordination with the federal government's minority business programs. He also served as special assistant to the secretary of commerce.

Formerly the president and CEO of Economic Resources Corporation of Los Angeles, developers of Watts Industrial Park, Kemp gained extensive experience in urban business development activities. He has served as executive director of the Los Angeles office of the Interracial Council for Business Opportunity (ICBO), which assists minority entrepreneurs in obtaining financing, management training, market information, and technical services. He has also held many directorships and now serves as commissioner and chairman of the Virginia Housing Development Authority.

An electrical engineer by profession, Kemp has been honored by listings in *Who's Who among Black Americans* and by the state of California for his contributions as a citizen and a scholar.

VINCENT LANE
Chicago, Illinois

Lane has received national recognition for his accomplishments as chairman and managing director of the Chicago Housing Authority. Appointed by Mayor Eugene Sawyer, Jr., in 1988 after a distinguished career in the private sector developing housing opportunities for those with low and moderate incomes, he quickly initiated changes in the CHA to improve not only the buildings and their living units but also the quality of life for the more than 150,000 residents of the CHA.

Before joining CHA, Lane was president and general partner of Urban Services and Development, Inc., and LSM Venture Associates, managing close to 3,000 apartment units and developing commercial properties in Chicago neighborhoods. Lane is currently president of American Community Housing Associates, which finances and redevelops apartments for low- and moderate-income households.

MAUREEN McAVEY
Boston, Massachusetts

McAvey is a director of the real estate consulting services of Coopers & Lybrand, Boston. She is now working with banks and insurance companies on their troubled real estate portfolios. She has recently completed a valuation assessment process for over 1,200 properties throughout the United States. She also serves as financial consultant to the Battery Park City Authority in New York and works with a variety of colleges and universities to assist them in joint-venture arrangements with developers.

McAvey's past experience includes working for the Carley Capital Group of Los Angeles as director of development. In that capacity, she was project manager for the renovation of a national historic landmark hotel and a university-related research park. She has 20 years of experience, with expertise in project management and financing for public/private development.

VICTOR MIRAMONTES
San Antonio, Texas

Miramontes is president of CMK, Inc., an international consulting and investment company that focuses primarily on commerce between the United States and Mexico. He serves on the boards of directors for City Water Systems of San Antonio and KLRN, a local PBS station. Miramontes is a founding partner and current shareholder of the Cisneros Asset Management Company, which manages fixed-income portfolios for institutional investors throughout the United States.

From 1984 to 1988, as first vice president of the Laredo National Bank, he was a commercial banker involved with national real estate lending, Mexican commercial projects, and trade development between the United States and Mexico. Miramontes was a public finance investment banker at Rotan Mosle/Paine Webber and specialized in higher education and utility bond financing. He has been involved with the Solid Waste Advisory Committee, which is charged with outlining long-term recommendations for the area's future solid waste collection, reuse, and disposal. In addition, he has participated in the Austin-San Antonio Corridor Council and in "Target 90—Goals for San Antonio."

MARC A. WEISS
New York, New York

Weiss is director of the Real Estate Development Research Center and associate professor of real estate development in the Graduate School of Architecture, Planning, and Preservation at Columbia University. He is the author of *The Rise of the Community Builders*, a book about the history and political economy of large-scale real estate development and urban planning. Currently, he is writing *Own Your Own Home*, a book about homeownership and housing policy.

Weiss is a fellow of the Urban Land Institute and coauthor of ULI's new university textbook, *Real Estate Development Principles and Process*. In addition, he has served as the deputy director of the California Commission on Industrial Innovation and as a frequent consultant to industry and government. He has also written many articles and research monographs on urban development and is producing a public television series on the history of development.

MARK WILLIS
New York, New York

Willis has been president of the Chase Community Development Corporation since 1989. As such, he is responsible for undertaking and expanding the efforts of the Chase Manhattan Corporation in support of housing and economic development in low- and moderate-income neighborhoods. In its first three years, the Chase CDC committed over $230 million for affordable housing, neighborhood shopping strips, home mortgages, and small businesses.

Before joining Chase, Willis was deputy commissioner for development of the New York City Department of Housing Preservation and Development, where his duties included planning, initiating, conducting, supervising, and managing city housing development programs. Other offices held include assistant commissioner and head of New York City's office of tax policy; special assistant to the deputy mayor for finance and economic development; senior economist of the regional economics staff of the Federal Reserve Bank of New York; economic adviser to the chairman of the New York City Planning Commission; and operator of a small business.