ECONOMIC STUDY AND
PROJECT RECOMMENDATIONS
FOR
THE SOUTHWEST COUNCIL OF LA RAZA

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INTRODUCTION

This report summarizes the work performed by Hackett Associates since the Board Meeting of November 9-10. Section One summarizes the conclusions and recommendations of this work.

An economic study was undertaken as a means of acquainting Council members -- and helping them acquaint others -- with the magnitude of the total effort required to establish Mexican-Americans on an economic footing commensurate with the nation as a whole. The results of the study will provide, in addition, a means of focusing Council attention on priority activities contributing to pursuit of the overall goal of economic equality. The remainder of the recommendations describe specific development actions for Council consideration.

A second section describes in more detail the conclusions of this document and includes supporting documentation, references, and analyses. This Section presents our final conclusions and recommendations for this phase of the study.

SUMMARY OF RECOMMENDATION

--- Continuing Economic STudy

--- Mexican-American Management Services Institute

--- Small Business Investment Corporation

--- Housing Development Corporation

--- Study: Savings and Loan Associations, Insurance Companies

SUMMARY OF CAPITAL FUNDING REQUIREMENTS FOR RECOMMENDED ECONOMIC OPPORTUNITY PROGRAMS

	1st Year			2nd Year		
	Grant	Stand-by Grant	Stand-by Advances & loans	Grant	Stand-by Grant	Stand-by Advances & loans
Management Institute	50,000	44,000	-	-	134,000	-
SBIC	300,000	-	-	-	-	-
Housing	23,500	-	96,000	-	-	96,000
Totals	373,500	44,000	96,000	-	134,000	96,000

I. ECONOMIC PROSPECTS

The task of determining what the economic future holds for Mexican-Americans is a difficult one. Even the most basic data concerning the current status of Mexican-Americans is lacking. Statistics-gathering agencies at every governmental level tend to avoid, whether consciously or not, identifying the Spanish-surnamed as a separate segment of the population. Arizona, for example, prepares population estimates annually for each county--but not estimates of its Spanish-surnamed population.

Furthermore, employment statistics unfortunately tend to emphasize numbers of employed by, say, occupation or industry, but fail to show how many of these are held by, or even adequate for, heads of households. In the service occupations, for example, only a third of the jobs are held by heads of households, so it is evidently less desirable to develop jobs in the services than in, say, construction, where some 80% of the jobs go to heads of households. Hackett Associates' approach has been to convent all projections into family and "employed head of household" terms.

As a consequence, Hackett Associates has found it necessary to make numerous assumptions to draw broad conclusions from the limited data. While further research might lead us to alter some of our conclusions, we doubt that such alterations would be extensive.

The conclusions noted below are based on the assumption that trends of the past will continue. Clearly, programs can be initiated which will change this picture--the council itself can exert the crucial leverage. Without these programs, by 1975...

The number of Spanish-surnamed Americans* will have grown to 5.3 million from the 3.5 million of 1960; sixty-five percent of them will live in California. The historically high rates of population growth for Mexican-Americans will deline.

The median family income in the five-state area will be approximately $11,000 (1968 dollars) annually, that of Mexican-American families will approach $8,700.

In terms of mobility and expansion of job opportunities, Mexican-Americans' median income could come to within 90% of that of the whole population ($10,300), were it not for their lack of educational attainment.

Discussion of median incomes tends to obscure the principal problem, however. One fourth of all Mexican-American families will have incomes below $5,500 while only 15% of all families will have lower incomes.

In terms of gains in income, an important factor for Mexican-Americans will be the shift in population to California, and away from Texas, where incomes are among the highest and lowest respectively in the United States.

There will continue to be a high proportion of Mexican-Americans in low-skilled occupations.

The absolute decline in employment in agriculture and percent-

*Reference is always to only Arizona, California, Colorado, New Mexico, and Texas.

age declines in mining and construction, all industries which have traditionally provided jobs for low-skilled workers, will be to the disadvantage of Mexican-Americans. The latter two, in particular, are important employers of family heads.

The "squeezing out" of smaller businessmen and professionals from self employment opportunities will work against Mexican-Americans.

The continuing gains in achieving parity with other workers in both salary and number of jobs in government will work in favor of Mexican-Americans.

A special comment on education: Failure to achieve parity of the total population will continue to be the most important single problem which Mexican-Americans must overcome in order to achieve economic parity with the rest of the community. Discrimination, while obviously a factor in many communities, is not as important a factor as it is for Negroes. It is reasonable to suggest that in the longer run nothing the Council can do toward economic developement will be as important to Mexican-Americans as its work in assuring educational opportunity.

<u>Population</u>: We have assumed that past higher birth rates in the Mexican-American population will tend to diminish in the future. A survey conducted in San Antonio showed a rather steady decline from 36.7 live births per 1,000 persons in 1960 to 32.6 in 1964. We assume, further, that the termination of the <u>bracero</u> Program has greatly reduced immigration, which averaged 42,000 in 1964-65.

The result is a projected increase in Spanish-surnamed population which is significantly below historical rates.

Total Spanish-surnamed Population (1,000)

1960	3,465
1967	4,575
1970	4,996
1975	5,340

The lure of higher wages and more attractive opportunities in California will tend to draw Mexican-Americans to that state in ever-greater numbers.

In 1967, 13.4% of all children in public schools in California had Spanish surnames, from which we estimated that 12.3% of the California population is Spanish-surnamed now; by 1975 this will grow to 13.5%. Yet, so great is the anticipated growth in California's population that by 1975 some 65% of all Spanish-surnamed Americans will live there. We anticipate, in fact, an absolute decline in the numbers of Mexican-Americans living in other states between now and 1975.

Spanish-surnamed Americans, by State of Residence in 1975 (1,000)

	Persons	Household with Employed Head
Arizona	160	37
California	3,470	916
Colorado	160	40
New Mexico	270	67
Texas	1,280	302

Economic Analysis

A variety of alternative approaches can be used to make economic projections; one of the more common is that of first projecting the size of the population and then determining the proportion of those in each age group which will actually be in the labor market. This approach was used in a study carried out for the Economic Development Administration, the results of which were used by Hackett Associates as a total employment figure for 1975.

The conversion of these employment figures to a "head of household" concept has important implications for the real economic opportunities which will exist for Mexican-Americans. The following figures show how many jobs in each category are "head of household" jobs:

Occupation	% of Total Jobs Which are Held by Heads of Households
Professional, technical, etc.	58%
Managers, officials, etc.	80
Clerical workers	28
Sales workers	52
Craftsmen, foremen, etc.	84
Operatives	65
Service workers	32
Laborers	55
Industry	
Agriculture	65%
Mining	85
Construction	88
Manufacturing	70
Transportation, comm.and public utilities	73
Trade	51
Finance, insurance, real estate	50
Services	40
Public administration	67

The occupation distribution of Mexican-Americans in 1960 provides a point-of-departure for estimating future trends. Surveys conducted in East Los Angeles in 1965, in San Francisco and Los Angeles in 1966, in San Antonio in 1965, and analysis of 1966 employment records in Colorado all provide an overall basis for projecting the occupational distribution of Mexican-American heads of households in 1975. Occupations, with their associated family income levels, provide one basis for projections of income.

An independent analysis of employment by industry sector was made as a means of substantiating the occupational income projections. Both sets of projections are for each of the five states, and for total employment and Mexican-American employment separately.

Although this study was conducted in terms of median* family incomes associated with various occupations and industries, median income is not always satisfactory indicator of economic well-being. A highly inequitable distribution of incomes may create more problems than a low median. Although in the long run, higher educational attainment will be the key to improved economic status for Mexican-Americans, in the short, the problem will be that of setting up development programs which will establish a "floor" under family incomes.

*Exactly half of the families earn more than the median and half earn less.

Education

While not necessarily a direct component of economic development, it is evident that educational attainment is important to the economic development process. An earlier report showed the high degree of correlation between educational attainment and occupation. In the context of that report, it was suggested that the Southwest Council would have to find ways of utilizing outside managerial capabilities in order to achieve its objectives.

Those data were based on 1960 Census figures. More recent data give evidence that little progress is being made in educational attainment. A study prepared by the Inter-Agency Committee on Mexican-American Affairs showed Spanish-surnamed college graduates lagging in numbers far behind the whole population:

1968 College Graduates

State	Total Graduates	SSA Graduates	% of SSA	% of SSA population in the state (1960)
Arizona	9,429	161	1.7	14.9
California	74,253	1,060	1.4	9.1
Colorado	11,927	203	1.7	9.0
New Mexico	3,847	335	8.7	28.3
Texas	39,984	1,230	3.0	13.4

Studies prepared by the California Department of Education show much the same pattern. California probably leads the five states in overall excellence of its educational programs. Those data show that from the sixth grade on, Spanish-surnamed students represent an increasingly smaller proportion of the total state enrollment.*

The persistence of this lag in educational attainment in the future will have an increasingly negative impact on Mexican-Americans' ability to compete for higher income occupations.

*This could partially be explained, however, by the larger proportion of younger Spanish-surnamed students in the whole population--a consequence of the larger size family of Mexican-American.

Recommendations

Hackett Associates recommends that a number of specific area economic studies be made as a continuing function of the Southwest Council. Indeed, the results of the study presented here need to be further substantiated by other approaches which are commonly used by economists, amd materials already available should be analyzed for further insights.

In particular, specific geographical area studies need to be made in order to know where centers of Mexican-American population are, and will be, located. The increasing urbanization of Mexican-Americans is one factor which economic development programs must take into account, as well as the characteristics of the Mexican-American population in each of those urban centers and the economic opportunities available to them. Eventually, we shall wish to trace out the impact on each local Mexican-American community of every project which the Council undertakes. We do not have a mechanism for evaluating these kinds of impact for the very programs recommended Part II of this report.

In addition, small studies are required to...

evaluate, everywhere, the trends in educational attainment,

evaluate the impact of immigration and "green card" work permits on employment and wage levels in every locality where Mexican-Americans are affected,

determine trends in immigration and population growth. If it is true that 65% of all Mexican-Americans will be living in California by 1975, this has clear implications for the Council's priorities. We should seek to further substantiate this projection.

determine housing requirements throughout the region in order to locate and define areas of special need,

locate and describe those centers of Mexican-American population with incomes below some predetermined "floor."

II. SUMMARY OF RECOMMENDATIONS ON ECONOMIC DEVELOPMENT PROJECTS

Hackett Associates has examined the feasibility of a number of development projects. Descriptions of these projects and specific recommendations concerning them are included in this Section.

Council Staff

For purposes of this report, Hackett Associates assumes the following relationships (see Figure 1) between the Council staff and its operating companies.

a. The Council would establish, as soon as their economic feasibility permits, separate companies, either wholly or partly owned by the Council, for the purpose of achieving the Council's economic development objectives. Each company would be subject to review, but not operating control, of a specially constituted Project Review Committee. The function of the Project Review Committee is to insure that the overall objectives of the Council are being met. Control of each company would remain in the hands of their respective boards of directors. Three such companies are recommended in this report.

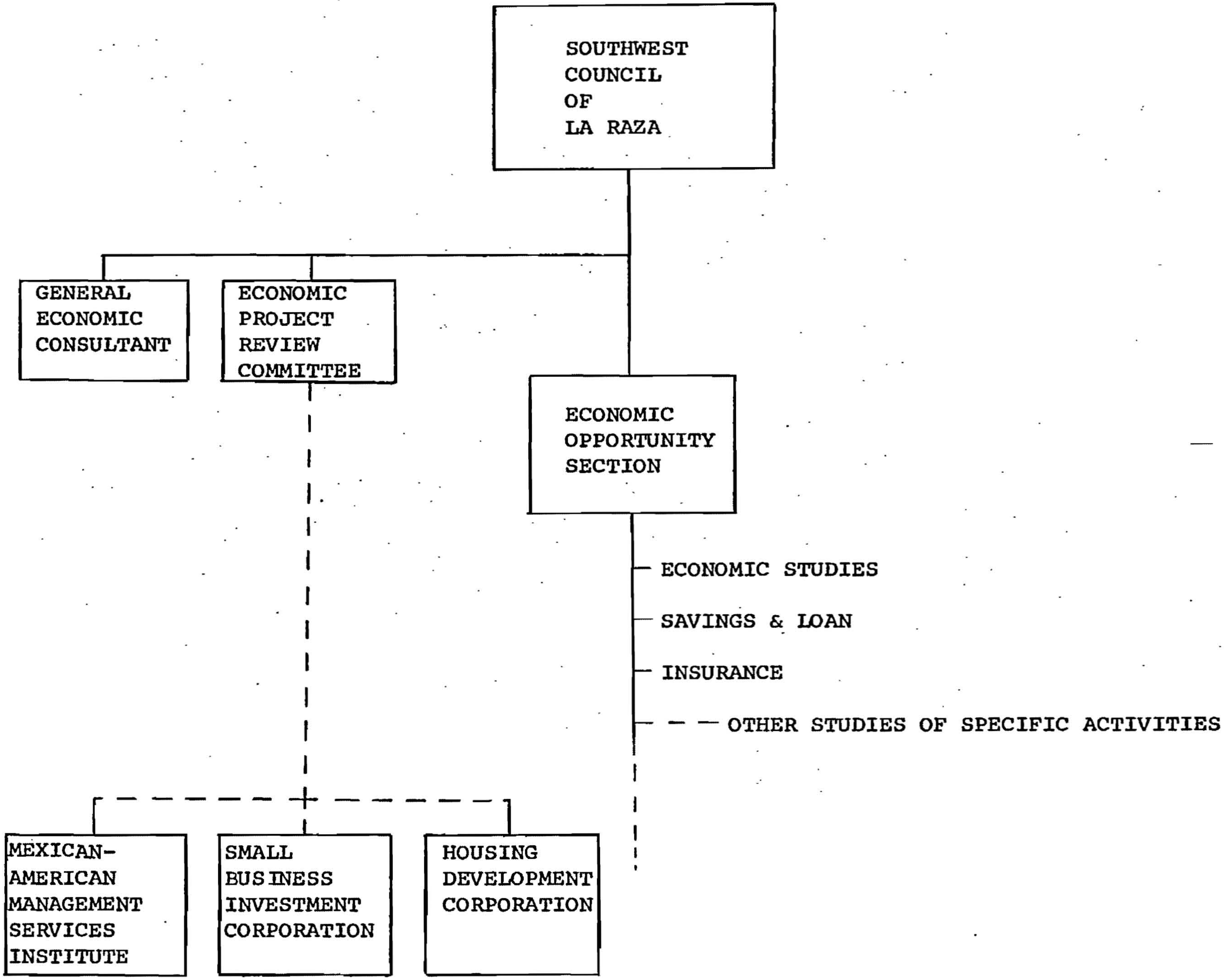

Figure 1. Proposed Organization - Economic Development Program

b. An Economic Opportunities Section (EOS) of the Council will act as staff for the Project Review Committee.

c. The EOS will review projects proposed and feasibility studies for Council operating companies and make recommendations to the Council's Review Committee for their implementation through the operating companies. It will also oversee and at times conduct broader economic studies and feasibility reviews of new areas of program development and make recommendations to the Council on their inclusion in the overall Economic Opportunity Program. Two such feasibility studies are recommended here, plus a continuing economic study.

To illustrate the scope of activities of the EOS, it might consider further investigation of the following, all of which have been suggested to Hackett Associates as being areas of need and opportunity which have not been reviewed sufficiently to permit a firm recommendation for further study.

Projects

- Lawyers' office/commercial center; San Antonio
- Food processing (Project HELP); Albuquerque

- Shopping center/housing complex (Arriba Juntos); San Francisco
- Restaurant franchising; San Antonio
- Construction equipment rental service; San Antonio, Los Angeles
- Accounting and tax firms; Los Angeles, El Paso, San Antonio
- Custodial service firms; entire Southwest
- Nursery and landscape companies; Southern California, Arizona
- Franchise participation with such firms as 7-11, McDonald's, Taco Bell, Avis, Hertz, National, etc.
- Laundry - industrial and/or retail; San Francisco
- Advertising; Los Angeles, San Antonio
- Architectural-engineering firms in Southern California and South Texas to specialize in low-cost housing.

General Program Lines

- Savings and Loan
- Insurance
- Economic studies

Operating Companies

With respect to the recommendations which follow, Hackett Associates suggests that the establishment of a Management Services Institute, a Small Business Investment Corporation (SBIC), and a Housing Development Corporation should be undertaken immediately. The Council's Economic Opportunities Section should undertake further studies and discussions pertinent to the role of savings and loan associations and insurance companies in providing a flow of capital to the Mexican-American community.

A. Mexican-American Management Services Institute

Hackett Associates recommends that the Southwest Council form a management institute for the purpose of developing improved managerial and entrepreneurial capability in the Mexican-American community and of providing needed management services to selected enterprises. A non-profit form of organization is recommended in order to facilitate access to grants and research contracts not available to profit-making organizations.

The Institute would

- provide management services directly to clients whose activities are contributing to the economic development objectives of the Southwest Council. These services would be provided on a cost-plus overhead fee basis.

- identify and develop opportunities for new and expanded enterprise and assist them to obtain needed technical and financial assistance (through the SBIC and other sources).

- provide information and referral services, serving as an information clearing house and referral service for information about economic conditions in the Southwest and sources of technical and/or financial assistance available to help individuals, groups, companies or communities to improve economic opportunities for Mexican-Americans. Also, it would promote the exchange of information generally about products and services of Mexican-American firms. (The design of an information system to support this is described in an Annex to Section 2).

- conduct symposia and management seminars for Mexican-American businessmen with special emphasis on problems peculiar to the community and steps which can be taken to overcome them.

- promote the recruitment of able Mexican-Americans from business schools back into the community, including the establishment of special scholarships in business administration as a means of developing and retaining overall managerial capabilities within the community.

- seek contracts for developing and managing manpower training programs the function of which is to upgrade all skill levels needed for economic development.

Proposed Plan of Operations for Institute

Once organized and functioning, the Institute would contract with the SBIC to provide staff support and advisory services to the SBIC for an annual fee. It would also contract with those SBIC clients in need of technical assistance to fully realize the benefits of their SBIC loan or investment. In the organizational phase a concerted effort should be made to locate and obtain additional sources of business. Provision for considerable travel has been made in the organizational budget for this purpose. Considerable attention should be given to possible government agency clients, as they might be in a better position to fund projects which are within the La Raza scope of interest and at a dollar volume more able to help meet the Institute's overhead requirements. Support from such sources as SBA, EDA, and the American Management Association should be sought for convening of a conference of Mexican-American Management and Business leaders. Such a meeting would not only provide the Institute and SBIC access to an important part of its potential market but could become the first step in the formation of a Mexican-American Management Association.

Early attention should also be given to the organization of community owned corporations in various parts of the Southwest. These corporations would work under guidelines of the Small Business Administration 502 Loan Program. This effort would have a multiple purpose; first to involve the Mexican-American community in self-help efforts for economic development. It would also provide the Institute and SBIC with a source of clients for business promotion, consulting, lending, and investments. The Local Development Corporations (LDC) could draw upon SBA 502 resources which provide loans of up to $350,000 at low interest over a 25-year period. For eligible projects in the Mexican-American community, SBA could offer financial resources covering 90% of the project costs (leaving only 10% up to the community and its friends). SBA 502 loans can be obtained for establishing industrial parks, downtown renewal, shopping centers, plant construction, expansion or conversion as well as purchased land, buildings and equipment. These same local corporations can draw upon the benefits of SBA's project OWN which reflects that agency's recent interest in fomenting a "compensatory capitalism" to bring minorities into economic enterprise. The resources available through this program are described in an Annex to Section 2.

While the La Raza SBIC will be available to invest in and loan to many of the projects in these communities, it will be most important to develop and utilize other sources of funds as well. One reason is the limited amount of resources in the SBIC. Another is that for some clients who are very small businessmen or community groups, the other resources offer them more attractive terms and more leverage. Finally, if the SBIC is to eventually become an important source of income for the Council, its portfolio should be developed with the utmost care to assure maximum returns (within the policy constraints imposed by the Council). Low yield, socially oriented enterprises should therefore be screened out and developed for SBA or other financing by the D/MG in order to "protect" the SBIC portfolio from an onslaught of marginal investment proposals. The "buffer" role of the Institute is most important to the growth of the Council's program.

Steps in Development of Institute

Hackett Associates proposes that the following be done in order to initiate the Institute:

a. Immediately assign Council staff responsibility for coordination of the Institute formation and operation within the overall economic opportunity program. This would be the Economic Opportunity Section.

b. Assign decision-making responsibility for organization of the Institute to a Policy and Program Review Committee which should be constituted at this time with authority to approve the legal, financial and administrative actions required to get the company in business.

c. Incorporate the Institute as a non-profit corporation, elect a board, adopt by-laws, obtain office space, etc. Hire staff and retain consultants called for by proposed program.

d. Prepare and present grant applications to appropriate foundations and government agencies (DLHA will adapt this report to that end).

e. Approve the projected expenses for organizations and operations as well as the grant request to be presented for foundation support.

f. Promote and develop a conference of Mexican-American businessmen. This agenda would include:

- presentations on special problems of Mexican-American firms
- presentations on new approaches for reaching Mexican-American clientele
- discussion of the Institute and the Small Business Investment Corporation services. The conference would be a means of launching the Institute and SBIC.

A special grant should be sought to defray expenses of this conference.

Management Institute
Estimated Flows of Funds 1969-73

Outlays of Funds	1969	1970	1971	1972-3 each year
Manager/director	$10,000	18,000	20,000	20,000
Assistant manager	5,000	13,000	14,000	15,000
Management analysts	5,000	11,000	12,000	24,000
Technical staff	2,000	7,000	8,000	25,000
General overhead	11,000	24,500	27,000	42,000
Conference costs (1)	2,500	3,500	4,000	4,000
Publications (2)	1,500	2,000	3,000	5,000
Scholarships (3)	2,500	5,000	10,000	10,000
Contracted support (4)	50,000	50,000	50,000	50,000
Organization expenses	5,000			
	$94,500	$134,000	$148,000	$195,000

Sources of Funds	1969	1970	1971	1972-3 each year
Direct management assistance (5)	$10,000	35,000	40,000	75,000
Grants (government and private) (6)	57,000	20,000	20,000	20,000
Study contracts (government and private) (7)	22,500	54,000	63,000	75,000
Management contracts (8)	5,000	25,000	25,000	25,000
	$94,500	$134,000	$148,000	$195,000

Notes to projected budget:

(1) Conference costs include facilities, special publicity, and staff travel and are in addition to income from registration fees, etc.

(2) Printing and distribution.

(3) Direct scholarship grants, excluding costs of administration and assistance in obtaining student loans.

(4) Includes consultants, data processing, etc.

(5) For services performed as management consultants.

(6) Does not include costs of administration. Grants directly to scholarship fund are not available for general revenue purposes. The total amount disbursed is always assumed equal to or more than amounts given specifically to the scholarship fund.

(7) Private study contracts include feasibility studies for firms in the private sector.

(8) For management, under contract, of programs; for example, training and employment programs.

B. Small Business Investment Corporation (SBIC)

Hackett Associates recommends that the Southwest Council establish a Small Business Investment Corporation for the purpose of meeting long-term financial needs of Mexican-American entrepreneurs in the Southwest and eventually providing the Council with a source of income. Hackett Associates further recommends that additional SBIC's be established as quickly as areas of need can be identified and initial capital funds secured. These recommendations are based on the following primary considerations:

- an SBIC is a financial mechanism which, of those studied, seems most appropriate for the Council to rapidly make funds available to Mexican-American entrepreneurs
- an SBIC can provide the mechanism for development of a Southwest Council Endowment Fund through transfer of equities in successful enterprises to that Fund
- the initial capitalization could be sought in the form of a grant or perhaps a portfolio investment or long-term loan by the Ford Foundation.

Small Business Investment Corporation: Description

SBIC's are privately-owned companies which have been licensed by the Small Business Administration to provide "equity" or "venture" capital and long-term loans to small business firms. They cannot, for instance, sell insurance or trade in property; nor can they become holding companies for groups of operating businesses. Otherwise they can operate fairly freely through the business community. The "leverage" available to SBIC's through government loans is most important. An SBIC may be eligible for a government loan equal to twice its paid-in capital and surplus. Such loans may be subordinated and have maturity of up to fifteen years.

An SBIC finances small firms in two general ways -- by straight loans and by equity-type investment which gives the SBIC actual or potential ownership of a portion of a small business's stock. Financing must continue for at least five years, except under special circumstances. SBIC's invest in practically all types of manufacturing and service industries and in a wide variety of other types of business, including construction, retailing, and wholesaling. The SBIC proposed for the Southwest Council would seek out small businesses which offer benefits to the Mexican-American community either by increasing employment or by offering services not presently available in the community.

SBIC: Organization, Staffing, Relation to Institute

The proposed firm would be chartered in accordance with SBA regulations and licensed by SBA to operate as an SBIC under the 1958 Small Business Investment Act.

A close relationship between the SBIC(s) and the Management Services Institute would be maintained. The latter would provide management and advisory support, as well as screening and referring eligible clients for SBIC loans and investments (see preceding section).

The SBA licensing procedure costs $500 for a filing fee. A preliminary application can be made to obtain SBA's informal opinion (Annex 7 is a proposed preliminary application which can be presented immediately).

SBIC: Financial Plan

The initial SBIC is proposed for capitalization at $300,000. A commitment schedule, following page, assumes that $300,000 would be committed by the fourth quarter of operations. Commitment of 75% of its assets entitles the SBIC to draw against its 2:1 borrowing authority with SBA. This would allow development of a total portfolio of up to $900,000. A proposed budget is attached.

Commitment Schedule of SBIC

	Amount Committed by Quarter	Cumulative Total of Commitments	No. of Operations	Cumulative Total No. of Operations	Source of Funds
1st Year					
1st Quarter	50,000	50,000	2	2	Capital
2nd Quarter	100,000	150,000	5	7	Capital
3rd Quarter	100,000	200,000	6	13	Capital
4th Quarter	100,000	300,000	6	19	Capital and SBA Loan
2nd Year					
1st Quarter	100,000	400,000	6	25	Capital and SBA Loan
2nd Quarter	100,000	500,000	6	31	Capital and SBA Loan
3rd Quarter	100,000	600,000	6	37	Capital and SBA Loan

Action on SBIC Recommended to S. W. Council

1. By the S. W. Council Board

   a. Approve the above recommendations.

   b. Assign Council's staff responsibility for coordination of the SBIC's formation and operation within the overall economic opportunity program.

   c. Assign decision making responsibility for organization of the SBIC to a policy and program review committee with authority to approve the legal, financial and administrative actions required to get the company into business.

   d. Approve the projected expenses for organization and operations as well as the amount of the grant request to be presented for foundation support.

2. By the S. W. Council Staff and Review Committee (authorized in A above)

   a. Make preliminary application for an SBA license (see draft application in annex).

   b. Present grant application to appropriate foundations.

   c. Retain consultants and legal counsel required for organization phase.

   d. Incorporate SBIC, elect board, adopt by-laws, etc.

   e. Make formal application for SBA license once informal approval given by SBA and capital available.

   f. Begin informally developing possibilities for investments and loans.

   g. Establish relationship between SBIC and Institute and get SBA approval for this.

   h. Once a license is granted and funds are available, activate the corporation, pay in the capital and begin operations.

Proposed Budget
SBIC Based on SBA Income Experience
with Selected Licenses and Adjusted
for La Raza Expense Projections

	1969	1970	1971	1972	1973	1974
<u>Income</u>						
From Loan and Investment Operations	$7,000	$10,000	$30,000	$40,000	$50,000	$60,000
Realized gains (including unrealized portfolio appreciation)	-----	------	------	------	40,000	80,000
Gross Revenue	7,000	10,000	30,000	40,000	90,000	140,000
<u>Expense</u>						
Interest and financial charges	-----	15,000	30,000	30,000	30,000	30,000
Operating Expenses (1)	15,000	20,000	20,000	20,000	20,000	25,000
Provision for Losses	2,000	4,000	5,000	5,000	5,000	5,000
Gross Expenses	17,000	39,000	55,000	55,000	55,000	60,000
Net Income (Loss)	(10,000)	(29,000)	(25,000)	(15,000)	35,000	80,000
Cumulative cash income (Loss)	(10,000)	(39,000)	(64,000)	(79,000)	(44,000)	36,000

(1) Primarily paid to the Management Services Institute.

Small Business Investment Company's Projected Condensed Financial Statements as of March 31, 1974 (Break even year)*

Condensed Statement of Financial Condition	Percent	Amount	
Assets			
Cash and U.S. Government Obligations	17	153,000	
Loans to Small Businesses	38	342,000	
Equity Securities of SBCs			
Debt Securities of SBCs	21	189,000	(1)
SBC Capital Stocks and Stock Rights for which Separate Costs Have Been Determined	13	117,000	(1)
Gross Loans and Investments	72	648,000	
Less: Allowances for Losses	5	45,000	
Net Loans and Investments	67	603,000	
Assets Acquired in Liquidation Less Accumulated Depreciation and Allowances for Losses	10	90,000	
Less: Mortgages Payable	2	18,000	
Net Assets Acquired in Liquidation	8	72,000	
All other Assets	8	72,000	
Total Assets	100	900,000	
Liabilities, Capital, and Surplus			
Borrowings:			
Subordinated Debentures Issued to SBA and Funds Borrowed from SBA	48	432,000	
Funds Borrowed from Other than SBA	6	54,000	
All Other Liabilities	8	72,000	
Total Liabilities	62	558,000	
Capital Stock, Amounts Paid on Stock Subscribed, and Paid-In Surplus	36	324,000	
Retained Earnings (Deficit)	2	18,000	
Total Capital and Surplus	38	342,000	
Total Liabilities, Capital, and Surplus	100	900,000	

(1) Does not include unrealized appreciation of investments: estimated 102,510

*Based on 35 selected companies with 5 years or more experience having combined private paid-in capital and paid-in surplus of $300,000 to $1,000,000.

Preliminary Submission to Small Business
Administration for Informal Review and Comment
on Proposed License for a Firm to be Called
The La Raza Development Corporation

1. Name of Licensee - La Raza Development Corporation

2. Location - (?)

3. Capitalization - $330,000

4. Source of Capital - Foundation grant

5. Operating Area - New Mexico, Arizona, California, Texas and Colorado

6. Need for License in Area - This firm will operate principally to meet capital requirements of new and expanding enterprises owned by and/or benefitting members of the Spanish surname community of the Southwestern states. No other licensee is engaged in this area of emphasis. Such an emphasis is desirable to hasten the incorporation of persons of Mexican and Spanish origin into the mainstream of the American economy and to afford them the capital they require for new and expanded enterprises.

7. Plan of Operations (a) Application - Applicant anticipates submitting formal application immediately on approval of this preliminary inquiry and receipt of the foundation grant required for capitalization of the proposed SBIC. (b) Organization and Management - The firm will be incorporated in New Mexico as a wholly owned subsidiary of the S. W. Council of La Raza. (c) Financial Plan: Emphasis will be divided more or less evenly between equity and loans, with lending concentrated on working capital and other loan financing requirements of small business located in areas where there is a concentration of persons with Mexican ancestry. Commitments of 75% of the initial $300,000 capital is anticipated by the third quarter of operations with borrowing under SBA authority proceeding up to $600,000 over the next four quarters (consistent with commitments).

8. Management and Control - The proposed SBIC will have a clear identity, maintain regular office hours, keep separate books, records, etc. Control will be in the hands of the Southwest Council of La Raza, a non-profit corporation headquartered in

Phoenix, Arizona. All shares will be held by the Council and no offering to the public or other parties is contemplated.

9. <u>Articles of Incorporation</u> - The articles attached to Part II are for illustrative purposes and are subject to amendment after review by New Mexico Council.

C. Housing Development Corporation

Hackett Associates recommends the formation of a non-profit corporation, owned by the Southwest Council, as a first step in developing a program for adequate housing for low-income Mexican-American families in the Southwest. This recommendation is based on the following considerations:

- there is a serious shortage of housing available to low-income Mexican-American families
- new opportunity to attack this problem is afforded by new Federal housing programs
- housing construction can provide new job opportunities to unskilled Mexican-American workers
- new opportunities can be created for Mexican-American construction and building supplies firms.

The emphasis of a La Raza housing program should be on:

1. The skillful use of specific low-income housing subsidy programs.

2. Innovation in low cost architectural design and construction.

3. Maintaining a professional housing development staff responsible to the community and its needs.

4. Community involvement in planning, ownership, and maintenance.

5. Concerted efforts to bring secondary benefits (e.g., job opportunities) of the program to the service of the Mexican-American community. Those points of emphasis are summarized as follows:

MAXIMUM USE OF GOVERNMENT SUBSIDY PROGRAMS

A) Multi-Family Housing in High Density Urban Areas

1. Section 221 (d)(3) of the National Housing Act provides below market interest rate of 3% on a 40 year mortgage. The complete cost of housing development is covered; no equity investment is required of the sponsor. The maximum income limitations imposed by this program will not affect the social goals of La Raza.

Example: Maximum Income Limits

	San Antonio	Los Angeles
Four Person Families	$6,650.00	$ 8,750.00
Five Person Families	7,650.00	10,050.00

2. Section 236 of the National Housing Act provides interest rates as low as 1% on long term mortgages. Legislation clearly states that a tenant must pay for rent at least 25% of family monthly income (less $300 yearly for each minor child and a general 5% deduction from gross income) to be eligible for subsidy. Additionally, income limits for eligibility are set at 135% of prevailing public housing rent, although 20% of the families in a §236 project are permitted to qualify at slightly higher income levels equal to 90% of §221(d)(3) limits.

In spite of these restrictions, the impact of this program can be considerable.

Example: Monthly Payments on Newly Constructed Two-Bedroom Units

	San Antonio	Los Angeles
Market	$132.00	$164.00
§221(d)(3)	98.50	130.00
§236	87.87	115.00

Rents can be further reduced for 20% of the tenants by use of §221(d)(3) or §236 in combination with the following federal programs:

3. Section 101 Rent Supplement pays the difference between 25% of tenant income and whatever rent is necessary to pay operating expenses and subsidized mortgage amortization. While there is no ceiling on the amount of subsidy applicable to an individual unit, there is a ceiling on the amount available to an entire project. Maximum income limits for eligibility are lower than in the programs cited above.

<u>Example: Maximum Income Limits Under Rent Supplement</u>

	San Antonio	Los Angeles
Four Persons	$3,100.00	$4,300.00
Five Persons	3,400.00	4,600.00

4. Section 23 Public Housing Leasing places in federally assisted private housing families eligible for public housing. The local public housing authority is empowered to absorb the difference between public rentals and the private rate.

B) Single Family Housing

The Southwestern portion of the Nation is also in desperate need of low-cost single family structures. The most efficient approach to meeting this need combines the use of inexpensive fireproof prefabricated homes and the special federal programs which encourage home ownership by low income families.

Significant cost savings can be achieved through the following subsidy programs:

1. Section 235(i) of the National Housing Act authorizes the production of new single family housing to be purchased by low income families with the assistance of

30 year mortgages at interest rates as low as 1%. The minimum down payment is $200 for families having incomes within 135% of income limits for local public housing, or 3% of the mortgage for families with slightly higher incomes. The home owner must pay at least 20% of adjusted gross income on mortgage payments. The maximum single mortgage is $15,000.00 or $17,500.00 in high cost areas.

The power of this program to bring home ownership within the means of most families is borne out by this example:

A monthly payment of $48.30 is necessary to amortize a $15,000.00 mortgage at 1% over a term of 30 years, with a down payment of $200.00.

2. Sections 235(j) and 221(h) of the National Housing Act afford a broad range of possibilities for the purchase and rehabilitation of deteriorated housing and with resale to low income families. Financing arrangements and maximum income limitations are similar to those under §235(i).

3. Section 237 of the National Housing Act allows even more liberal mortgage advancement for families whose credit rating would not otherwise allow them to qualify for home ownership.

REALISTIC DESIGN

Elaborate architecture and expensive building materials used most U.S. residential housing has tended to cost housing out of the need of low-income families. The costs of certain highly attractive townhouse plans, for example, tend to cancel out the benefits of government subsidy and in some cases, can result in loss of eligibility for subsidies. With this in mind, the Council should concentrate on low-rise multi-family and row house structures. The Council should exploit to the fullest the benefits of low cost prefabricated materials, including prefabricated homes. David L. Hackett Associates have investigated on behalf of La Raza one proven system for prefabricating homes. Designed and tested by Skidmore, Owens and Merril, a leading national architectural firm, the system encompasses the manufacture of fire-proof one and two family prefabricated homes by indigenous groups for their own use. Consideration should be given to similar approaches whereby shelter needs are met by establishing factories which create job opportunities as well as housing. An annex to the full report reviews the prefabrication matters.

COMMUNITY OWNERSHIP THROUGH PARTICIPATION

Community participation should be the force behind housing production. The Council can reverse the traditional procedure whereby a planner or sponsor, working in a social vacuum, studies the problem and presents a complete plan to the community, which often reacts vigorously and angrily to a program being done to it rather than by it.

Under the DLHA approach, at the very beginning of sponsorship, well trained community organizers can work with prospective tenants, presenting housing alternatives and evolving from the community the most appropriate type of housing plan to suit family size and income. Among areas to be covered in this "evolution of opinion" are high-rise housing vs. low rise, new units vs. rehabilitation, moderate monthly charges vs. low charges, community facilities, commercial facilities, types of ownership (cooperative, condominium or lease), site location and if, indeed, new housing is really desirable. The opinion of prospective tenants is then channeled back to the housing development team which designs, plans and processes the project according to the wishes of the community.

PROFESSIONAL AND TECHNICAL STAFF

A recent study by the National Association of Housing and Redevelopment Officials pointed to the shortage of technical expertise project sponsors as the major reason for lagging production of low income government subsidized housing. To illustrate, the 1965 census reveals 35,600 deteriorating and dilapidated units in East Los Angeles; only 755 units of 221(d)(3) housing have been completed in Los Angeles County since the inception of the program despite an expected demand for 3,800 new low income units per year.

Through the creation of a non-profit Housing and Development Corporation with its own professional and technical experts, the Council can develop and process projects quickly and efficiently.

Time spent on planning and producing subsidized housing can be cut from the usual 15-18 months down to between seven and nine months. Coordinating under one roof the services of community organizers, attorneys, construction experts, architects and managers, the Corporation can eliminate the time lags that result when work is "farmed out" to independent professionals.

Costs can be kept to a minimum since the fees necessary to cover expenses and profits for independent firms are eliminated. In addition, the mortgages provided by government subsidy programs allow two per cent of total cost for legal and organization fees; a non-profit sponsor which provides these services is entitled to these fees, which can be used to fund future expanded efforts. (See Table II, footnote I).

Expansion of the development staff through training of new talent and formation of new development teams will quickly multiply the number of experts capable of obtaining and using government subsidies in an efficient and economical manner. Under the non-profit concept of the La Raza Housing Corporation, incomes would be used to expand operations and in time to spin off new housing corporations.

Coordination of residual expansion

Provision of shelter is not only a goal in itself but is an instrument for long range economic development and employment opportunities. The La Raza Housing and Development Corporation, geared to the training and multiplication of expert teams, will create new professional positions for members of the Mexican-

American community, with a full complement of white collar positions. The building trades and construction industry will benefit and create new job opportunities.

RECOMMENDATIONS AND CONCLUSIONS

In order to realize all the benefits of a government subsidized housing program, David L. Hackett Associates recommends that 1) The Council form a non-profit Housing and Community Development Corporation and 2) sponsor two pilot housing programs.

This corporation will employ the following:

STAFF PERSONNEL

Attorney (1)

Architects (2)

Construction Specialist (1)

Real Estate and Housing Trainee (1)

Community Organizer (1)

Administrator (part time)

This staff will be trained in the field by the housing specialists of David L. Hackett Associates over a period of one year. Training will consist of intensive study and field work on all aspects of the production of government-subsidized low income housing. The training of this staff will be coextensive with Hackett Associates' participation in the development of the two-pilot programs; one a multi-family project in a high density urban area such as Los Angeles and the other a single family development in a lower density urbanized area such as San Antonio as "in-house" capability grows the corporation would go into other cities.

The Housing Corporation will receive income from legal and organizational fees allocated to the pilot programs. Thus, although an initial outlay of funds will be necessary to staff the Corporation and cover training expenses, once the corporation is fully operational it can and should be self-sufficient. Initial expenses to cover operating costs and the first year's income-expense deficit can be secured by advances from participating financial institutions (e.g., banks, insurance companies) and, at times, from local business groups, foundations, etc. Section 106 of the 1968 Housing Act provides advances for legal, architectural and other necessary expenses. This is repaid at the time the housing is put under permanent mortgage financing. The OEO also provides seed grants for getting similar projects underway.

RECOMMENDED S. W. COUNCIL ACTION

1. Designate a project review committee with authority to approve specific operations and make the necessary legal and financial commitments to get the project underway.

2. Assign staff responsibility for this program to the Economic Opportunity Section.

3. Approve the preceding recommended housing program.

4. Authorize a request for grants and advances as may be required to get the program underway.

TABLE I - OPERATING BUDGET OF LA RAZA HOUSING AND COMMUNITY DEVELOPMENT CORPORATION

	EXPENSES	
A. STAFF AND ORGANIZATIONAL	1st yr.	2nd yr.
Administrative and Office	$10,000	$20,000
Architects	20,000	20,000
Attorney	10,000	10,000
Housing Trainee	7,500	9,000
Community Organizer	10,000	10,000
Training Consultants (See Table II)	62,000	25,000
TOTAL EXPENSES	$119,500	$94,000
	INCOME[1]	
B. PROJECT DESCRIPTION	1st yr.	2nd yr.
A) 250 units multi-family 221(d)(3) and/or 236 - pilot program. $4,000,000[2]	80,000[3]	
B) 100 units single family 221(h) and/or 235 - pilot program. $800,000	16,000[3]	
C) 250 units multi-family developed by La Raza housing staff. $4,000,000		80,000
D) 200 units of single family. $800,000		16,000
TOTAL INCOME	96,000	96,000
Income less expenses	(23,500)[4]	2,000[4]

(1) Income derived from minimum allowable 2% legal and organization fee.

(2) Development costs calculated at $15,000 per unit for Los Angeles area.

(3) Organizational fees are received at time of initial government financing - estimated at 9 months.

(4) Initial deficit of $23,500 to be made up by two to three year advances or capital grants. The Housing and Community Development Corporation is self sufficient by end of second year of operation and if momentum is maintained or accelerated income should exceed expenses by third year. This would be reinvested in staff for expanded operations and used to repay advances.

TABLE II - BUDGET OF DAVID L. HACKETT CONSULTANTS/TRAINING PROGRAM

Field staff -	$25,000
Professional consultants, 96 days at $250 per day - - - - (architects, lawyers, engineers, etc.)	24,000
Travel and Training costs and organization expenses - - -	20,000
Company overhead and profit - - - - - - - - - - - - - - - -	18,000
TOTAL -	$87,000

Table III

Quarterly Financial Plan for S.W. Council

Housing Corporation[1]

Source of Funds	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Grant	23,500	-	-	-	23.500
Advances/Loans	6,375	29,875	29,875	29,875	96,000
Fees	-	-	-	96,000	96,000
	29,875	29,875	29,875	125,875	215,500
Application of Funds					
Housing corporation salaries and overhead	14,375	14,375	14,375	14,375	57,500
Consultant/training, fees	15,500	15,500	15,500	15,500	62,000
Repayment of Advances and Loans	-	-	-	96,000	96,000
	29,875	29;875	29,875	125,875	215,500

Note (1) It is recommended that an initial grant of $23,500 be obtained from a Foundation source with stand by authority to draw on up to $96,000 in reimbursable advances(loans) should other sources of advances not be available (see text)

D. Savings and Loan Association

The lack of a regular, and substantial, flow of capital into barrio areas and, specifically, to Mexican-Americans, has been regarded as a major deterrent to their better housing and economic opportunity. In particular, problems in obtaining home loans has meant that Mexican-Americans have not had adequate opportunities to begin what, for most families, is becoming an increasingly important way of saving. (The National Income Accounts, for example, consider payments on the principal of mortgages as savings.) More than facilitate and broaden home ownership, the construction of housing can bring a number of economic advantages to the community -- these advantages are discussed in more detail in the section on housing.

To evaluate possibilities of accelerating the flow of funds which would enable Mexican-Americans to purchase houses through a savings and loan association, Hackett Associates directed a study of the savings and loan industry in California. The principal conclusions of that study were:

(1) Federal and State authorities, backed by industry tradition, have insisted that any activity which detracts from the financial solvency of an association should be avoided.

(2) This attitude has effectively prevented the development of meaningful programs to assist minority groups in obtaining a larger share of available home mortgage financing.

(3) The trend in the past three years has been toward larger associations through mergers and acquisitions. No small association has the economic power today to chart new paths for lending.

(4) Given the structure of the industry and its recent patterns, a new charter would be difficult to obtain and the purchase of an existing association with worthwhile assets would be relatively expensive.

(5) It might be possible, however, to obtain agreement to take over the management of a branch of a large association to offer special programs for minority borrowers and other low income groups.

(6) If any of these options prove unattainable, certain legislative changes might be sought to improve the low income groups' ability to cope with the home mortgage market.

Briefly, the formation of a new association requires $2 million in capital, an additional $200,000 for starting expenses, and six months for approval. A mutual company (i.e., an association owned by the shareholder/depositors) requires $500,000 capital with similar startup expenses and timing.

Acquisition demands a very high cash outlay for a relatively limited lending capability. A million dollars of acquisition cost provides a capability for financing only some 250-300 homes. The impact is thus relatively small compared with either the need or the available financial resources.

In general, the acquisition of an existing or establishment of a new savings and loan association appears to require an amount of capital and length of time which would make it a distinctly less desirable investment. If, on the other hand, an arrangement for establishing a branch or branches of existing associations could be worked out, the Council would find

> ... the risks lower, the likelihood of success higher, the undertaking simpler, and the <u>impact potentially greater</u>. (Italics mine.)

The establishment of Mexican-American branches of an existing association appears to offer the best opportunity for achieving maximum impact in the community. Such a branch, with specifically directed loan and promotional policies, would be wholly managed and operated by and for Mexican-Americans capable of developing lending policies appropriate to the market. Such a branch, in addition to processing the usual types of loans, could, through use of Federal subsidy programs such as Housing Act Sections 235 and 236, convert high risk loans into conventional risks.

The formal establishment of Mexican-American oriented branches would also bring a sense of competitiveness into loan dealings with the Mexican-American community which, hopefully, would eventually generate far more inflows of funds than the branches themselves.

The study sees no major impediments, either legal or institutional, to setting up Mexican-American branches of existing associations. Preliminary inquiries indicate that the industry itself would be receptive to the idea of further discussions. Hackett Associates recommends that these discussions be undertaken and that a preliminary general plan for Mexican-American savings and loan associations throughout the Southwest be developed.

IV. DAVID L. HACKETT ASSOCIATES

During the next three-month period, Hackett Associates proposes to undertake the following tasks:

A. Further development and documentation of the economic study at a reduced level of effort. This task will involve the further collection of data and their incorporation into detailed projections by--where feasible--county or metropolitan area. A portion of this task represents, in effect, a carryover of the economic study completed since the November 9 meeting.

B. Upon approval of the Council, Hackett Associates will proceed with the formation of the SBIC and Management Institute described here. Within three months after capital funds are availalbe, such companies should be open and operating.

C. The formation of the Housing Corporation can proceed immediately. Hackett Associates will proceed with the preparation of development plans for projects in San Antonio and East Los Angeles. Within approximately three months, financial support will be obtained for the development phase of each project, as described in the text. Hackett Associates and the Economic Section of the Southwest Council can begin recruiting appropriate personnel from the community to staff this function.

D. Hackett Associates will begin to implement the recommendations concerning the establishment of an insurance firm and savings and loan branches. The first phase of this study will involve location of appropriate sites throughout the Southwest which will best serve the community.