

**THE STATE OF  
THE CITIES**

**June 1997**

**U.S. Department of Housing and Urban Development**

# Contents

## **Overview**

### **I: The Decades of Decline**

The 1970s and 1980s saw a marked decline in the quality of life, the economic prospects and the optimism that once grew from America's cities. During these decades of decline, America's cities experienced:

- Rising poverty and declining populations
- Rising crime and declining school systems
- Lagging job growth compared to the suburbs

### **II: Cities Are Doing Better, But Real Challenges Remain**

The administration's first-term urban agenda has made a difference -- and there is genuinely good and hopeful news from many cities -- but this report finds three troubling trends in the Nation's largest cities:

- First, over at least the past quarter century a significant disparity has emerged in job creation between the cities and the suburbs -- and cities continue to lag.
- Second, over the past few decades, America's poor have grown more socially and economically isolated and more physically concentrated.
- And third, the long-term migration of the middle class from cities to suburbs continues into the 1990s.

### **III: An Urban Agenda for the Future**

The President is proposing a second-term urban agenda based on the principles developed through the successful Empowerment Zones initiative: bottom-up, flexible, results-oriented, values-driven. This report discusses how this agenda will work:

- The Empowerment Concept
- A Set of Urban Initiatives
- The Tools for Implementation of the Urban Agenda

## OVERVIEW

*“To prepare America for the 21st century, we must build stronger communities... Our growing economy has helped to revive poor urban and rural neighborhoods. But we must do more to empower them to create the conditions in which all families can flourish .”*

-- President Bill Clinton, State of the Union, 1997

Early in 1997, President Clinton asked Secretary Cuomo and the Department of Housing and Urban Development to look at two questions:

- (1) As we come to the close of the 20th century -- the century that saw the rise of many of America's great cities -- what now is the state of those cities?
- (2) What more can the Clinton Administration do to prepare our cities to meet the economic and social challenges of a new era?

This report directly answers both of these questions. Its description of the current state of the cities, as well as longer-range historical trends, is based in large part on extensive and original analysis of Bureau of Labor Statistics and Census data -- data that is being published for the first time in this report.

### **The State of the Cities**

There is much good news for cities, in large part because of the one-two punch of the administration's effective economic policies -- which have helped to lift many cities -- and targeted urban initiatives on a number of fronts including jobs, housing, crime, education and the environment.

- The administration's economic agenda of the past four years has created a vibrant and growing economy, with the United States now in the midst of a vigorous economic expansion. The deficit is down more than 75 percent since 1992 and there will be a balanced budget by 2002. Unemployment has dropped below five percent for the first time in 24 years. More than twelve million new jobs have been created and nearly five million additional families have secured their piece of the American dream by purchasing a home. This rising tide has helped to lift many cities from the economic decline of the 1970s and 80s.
- The fiscal health of many cities is stronger than it has been in decades and city budget ink is turning from red to black nationwide.

- Crime is down dramatically in part because the Brady bill is being implemented and getting 100,000 more cops on the beat.
- A number of cities have experienced a downtown renaissance, bringing whole areas back to life with sports, tourism and local business in part because many mayors are using flexible federal funds like HUD's Community Development Block Grants and Section 108 Loan Guarantees.
- Unemployment, from 1993 to 1996, dropped more in central cities than in their surrounding suburbs -- and each of the ten largest American cities has a lower unemployment rate today than in 1993<sup>1</sup>. Welfare reform and the new financial tools to make it work will move even more Americans into the labor force.
- Average pay for city jobs is growing faster than for suburban jobs as businesses concentrate their highest-productivity workers in cities<sup>2</sup>; and now work pays a better wage because of the expanded Earned Income Tax Credit and the rise in the minimum wage.
- Many mayors -- from cities of all sizes -- are highly optimistic about their cities' future. A 1997 survey found that almost 85 percent of mayors and chief elected officials scored the state of their city a seven or higher on a scale of one to ten. And over two-thirds noted that the number of jobs in their cities has increased over the past five years.<sup>3</sup>

As the Vice President has often noted, there is a new generation of deeply committed and visionary mayors leading the Nation's cities -- mayors who have turned their cities into laboratories of experimentation and innovation, helping forge in the heat of their urban cores smart and sensible solutions to city problems.

While these are positive and hopeful trends, they also tend to mask some of the deeper underlying challenges that remain.

*“While the great battles of the decades ahead are likely to be economic, the greatest challenge to our economic strength is certainly not competition from the Pacific Rim or Europe. No; the greatest challenge to our economic strength is here at home – where the decaying cores of too many inner cities and the poverty-stricken heartlands of rural America threaten to erode our dynamic regional economies from within. That is what we intend to change. I believe we can do it.”*

-- Vice President Al Gore

This report has three main findings concerning the problems facing cities:

**Finding #1: Over at least the past 25 years a significant disparity has emerged in job creation between the cities and the suburbs -- and cities continue to lag.**

- Urban unemployment has been regularly and significantly higher than suburban and national rates;
- Most of the jobs fueling metropolitan economic growth are being created in the suburbs;
- Large cities actually lost jobs in the early 1990s and most, but not all, have recovered; and
- Creating enough of the kinds of jobs welfare recipients need to move into the workforce will be a challenge for many cities. For example, in the early 1990s, fully 87 percent of the new jobs in the lower-paying and lower-skilled service and retail trade sectors were created in the suburbs, emphasizing the need for effective transportation to these jobs.<sup>4</sup>

**Response:** An Urban Agenda for the Future includes initiatives to help reverse this trend, including a Welfare to Work Jobs Challenge Fund, Welfare to Work Tax Credits, a Second Round of Empowerment Zones, the Brownfields Initiative, and the Bridges to Work Initiative.

**Finding #2: Over the past few decades, America's poor have grown more socially and economically isolated and more physically concentrated.**

- Nationwide the poverty rate in cities rose 50 percent from 14.2 percent in 1970 to 21.5 percent in 1993. From 1993 to 1995, there was a slight decline to 20.6 percent.<sup>5</sup>
- The concentration of the poor within many urban areas has been increasing. More than ten percent of all city residents live in census tracts with poverty rates of 40 percent or more.<sup>6</sup> Consequences of this concentration are severe: such high-poverty areas are often the breeding ground for severe social dysfunctions like violent crime, drug abuse and teenage pregnancy.
- High poverty rates also have placed heavy service burdens on cities while reducing the resources available to support these services.

**Response:** An Urban Agenda for the Future includes initiatives to help reverse this trend, including a historic remake of public housing, Empowerment Vouchers for homeownership, and anti-drug measures to reduce crime in inner cities, investments in

community development banks, and new housing vouchers to help link welfare recipients to jobs.

**Finding #3: The long-term migration of the middle class from cities to suburbs continues into the 1990s.**

- Only 11 of the 30 largest cities in 1970 have more people in them today than two decades ago, and population losses continue in some of today's largest cities.<sup>7</sup>
- But even in cities with growing populations, the character of the population is changing in ways that do not portend well for cities. Large cities are losing middle-class and wealthier families while suburbs are gaining these families.
- In addition, the number of families with children in central cities declined between 1970 and 1990, particularly two-parent families with children.<sup>8</sup>

**Response:** An Urban Agenda for the Future includes initiatives to help reverse this trend. The goal is to revitalize city neighborhoods in a way that retains and attracts middle-class residents, through several efforts including an Urban Homestead Initiative, crime fighting and prevention, and improvements to city schools.

In short, there is much good news to build on -- cities are far better off than they were in the 1970s and 1980s -- but America's largest cities are still trailing and only an invigorated urban agenda will prepare these cities, and their surrounding suburbs, for the new century.

**An Urban Agenda for America's Future**

*“Our goal must be to create a future unlike any that has come before – a future open to all – in which no person is left behind and in which no community is forgotten. A future in which everyone willing to do his or her part will be empowered with the tools to reach as high as their talents and hard work will take them. A future in which the bright sun of opportunity will reach those who have lived too long in the shadows. We can do it – together.”*

- Secretary Andrew Cuomo, confirmation hearing opening statement before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, 1997

To transform his words into action and to help neighborhoods in cities like Philadelphia, Jim Rouse founded the national nonprofit Enterprise Foundation in 1982. Its mission is to help communities form public/private partnerships to solve the problems they face. His contribution to creating sustainable communities is so vast it cannot be

measured and, although we lost this champion of communities in 1996, his legacy endures: **“what ought to be *can* be.”**

In keeping with Rouse’s vision, an urban agenda for the new century must begin with a central premise: cities matter.

Cities have provided hope and opportunity to millions of Americans for most of the past century. They have served as the gateway to travelers and future US citizens from around the world. They have been the ports of entry and exit for trillions of dollars of products made here and virtually everywhere else on the planet. They have been the centers and often the lifeblood of arts, culture, science and technology -- a symbol of the American promise and dream.

While cities possess incredible potential, they are also home to a disproportionate share of the country’s problems. Central cities are home to 42 percent of all U.S. jobs, but 45 percent of America’s poor live in these cities.<sup>9</sup> Just 47 city-based school districts are educating huge numbers of tomorrow’s minority workforce -- nearly 40 percent of African-American and 32 percent of Latino children.<sup>10</sup>

Even those who live outside the urban core have a real stake in the future of cities. The roots of America’s metropolitan economies lie in the great cities; neither city nor suburb can successfully incubate a new industry unless the resources and infrastructure are strong across the whole region. Nor can suburbs, and their residents, truly isolate themselves from the economic and social decay that affects so many large cities.

Over the past few decades, however, many have written off the Nation’s cities, fleeing to the suburbs for safety, an affordable home, a better job. Ironically, many have given up on one of the greatest innovations of the twentieth century, the engines that drove American economic prosperity and gave rise to the largest middle class the world has ever known.

Even courageous champions of the cities -- mayors and civic leaders nationwide -- have often faced impossible economic triage decisions, making choices to allocate precious and limited city resources to rebuild a dilapidated downtown but having to let other surrounding city neighborhoods languish without adequate assistance. All know that a vibrant downtown, while essential in a long-term recovery plan, does not a city make.

President Clinton, and Vice President Gore, believe deeply in the future of America’s cities. They have proved that commitment repeatedly over the past five years, putting together a strong first-term urban empowerment agenda that was based on a new and distinctly different approach to urban policy. It worked on a few basic but often ignored principles, emphasizing mainstream values and practical approaches:

- solutions must come from the bottom-up, not the top-down in Washington
- communities must have flexibility to implement what works best for them
- responsibility and hard work must be demanded of all who benefit
- strengthening communities and families must be the first priority
- private sector investment is the key to long-term growth, and the public sector must leverage private-sector resources wherever possible
- performance and results must be measured and rewarded

The core elements of that agenda -- developed and coordinated in large part through the Vice President's Community Empowerment Board -- included:

- the first federal Empowerment Zones and Enterprise Communities combining tax incentives and integrated programs (105 EZs and ECs)
- enacting legislation for Treasury's CDFI Fund to invest in community development financial institutions (CDFIs) and reforming the Community Reinvestment Act to generate over \$90 billion in commitments for community development lending and investment from banks and thrifts
- eliminating red tape to help states reform their own welfare systems to help meet the administration's goal of moving an additional 2 million people off welfare
- implementing the HUD Economic Development Initiative to spur private investment
- expanding the Earned Income Tax Credit for 18 million working families
- winning a higher minimum wage for the American worker
- creating affordable housing by making the low-income housing tax credit permanent
- boosting the homeownership rate
- committing to tear down and replace 100,000 of the most dangerous and dilapidated public housing units in the Nation
- rewriting federal homeless policy to serve 14 times more people than before
- launching a brownfields action agenda to clean up and revitalize contaminated properties



- reducing crime rates by putting tens of thousands more cops on the street through community policing, passing the Brady bill and the assault weapons ban, and instituting a “One Strike and You’re Out” policy to evict gangs and drugs dealers from public housing
- expanding educational opportunity by increasing funding for Head Start, creating Americorps, signing the School-to-Work Opportunities Act of 1994 and launching an initiative to link every child in every classroom to the Information Superhighway.

*“After five years of teamwork, Philadelphia’s downtown is booming once again. But we all know the key to a strong city is strong neighborhoods – neighborhoods are where we live, where our kids go to school, and where we connect with each other as one community.”*

-- Ed Rendell, Mayor of Philadelphia

*“The best way to attack any problem is to ask what things would look like if they worked. We can’t just settle for doing some housing, finding some jobs, or building some human support systems. We must do it all – decent housing in decent neighborhoods for everyone.”*

-- Jim Rouse, Founder, Enterprise Foundation

This report indicates that this first-term Clinton-Gore urban agenda is working for many cities, especially the President’s economic policies which are driving a recovery from the past few decades of economic and social decline. But the report also makes clear that too many cities, and most larger cities, are still lagging behind the economic renewal sweeping the country and that they continue to face very deep-seated problems that threaten not only the long-term health of those cities but their connected suburbs.

Progress has been made but the reality is that cities face the tremendous task of not only continuing to resolve the problems born in the 1970s and 1980s, but they must also meet two new challenges born in the 1990s: creating tens of thousands of jobs to move people from welfare to work and integrating the waves of new immigrants from all over the world.

Especially because of the jobs mismatch for urban residents, particularly for lower income residents, now more than ever we must recognize the strong and vital interdependence of the city and suburb. This is heightened in light of welfare reform, in which the county administers welfare and has financial responsibility, while the city often is home to many welfare recipients. Both issues point out a need for the new and growing interconnectedness of metropolitan regions – a positive trend fostered by mayors and county leaders nationwide.

We must also recognize that the new cities of the South and West – once thought to be immune from problems of crime, pollution and sprawl – face these challenges now as well.

If we fail to meet all of these challenges head on -- at the same time reversing the trends that still trouble cities -- many cities face the genuine possibility of a reprise of the decline of earlier decades. To ensure the success and health of America's cities well into the new century, the administration has begun, over the past few months, to put together a comprehensive and bold second term urban agenda -- in response to the second question the President originally proposed.

That agenda -- covering a wide range of urban concerns including homeownership and affordable housing, economic opportunity, crime and education -- is outlined in Section III of this report. Core elements include: a new urban homestead initiative, passage of a landmark public housing reform bill, a second round of empowerment zones, \$3 billion welfare to work challenge grants, a welfare to work tax credit, initiatives to prevent crime and deter gangs, investments in community development banks, funding for urban environmental cleanup of toxic "brownfield" sites, full funding of Head Start, and implementation of national education standards.

This report also makes clear the continued need for reform of the way the federal government does business -- and that the cornerstone of a renewed urban agenda is a reinvented and reinvigorated Department of Housing and Urban Development, the agency created specifically to help solve the Nation's urban problems.

HUD was born of the best intentions -- to help uplift the poor by providing decent, safe and affordable housing and to create homeownership opportunities for working families -- but those intentions have not always been carried out effectively by the agency or its partners.

HUD's challenge now is to match good intentions with good implementation, to bring together compassion and competence and to prove to America that we can really make a difference for America's communities.

How will America's cities fare in the new global economy? Will they drag down the rest of the country or become, once again, drivers of a new age of prosperity?

We can not wait to let history answer these questions for us.

For the future of our cities is also a harbinger of the future of race in this country -- a tell-tale sign of our hopes for achieving One America.

The statistics tell a clear story: urban problems disproportionately affect minorities. Race, and the dialogue and action needed for racial reconciliation recently called for by the President, are now placed at the center of our national agenda.

As the President said in a recent address in California, “We have torn down the barriers in our laws. Now we must break down the barriers in our lives, our minds, and our hearts...Will we become not two, but many Americas? Separate, unequal, and isolated? Or will we draw strength from all our people and our ancient faith in equality and human dignity to become the world’s first truly multiracial democracy? That is the unfinished work of our times, to lift the burden of race and redeem the promise of America.” Nowhere is the President’s challenge more profound than in America’s cities.

We can regain the promise of the American community captured in the founding pledge of “e pluribus unum,” meaning “out of many, one.” Instead of accommodating ourselves to a Nation Divided, we must construct the first chapter in a great new American story—a story that fits the most racially diverse democracy in history. And that means confronting the fate of our cities.

Having taken a hard and honest look at the state of America’s cities we must now have a tough and honest debate about what should be done for those cities if they are to survive and thrive into the new millennium. Our cities are waiting.

### **A Map of This Report**

Section I: Discusses the two decades of decline—the 70s and the 80s—as American life was increasingly defined as suburban life.

Section II: Shows how cities were able to rebound in the 1990s through a combination of national economic expansion, programs designed to empower local communities, and the hard work of cities around the country.

This section then details the major problems still facing cities and concludes by focusing on two special challenges to America’s cities on the cusp of the new century: welfare reform and immigration.

Section III: Offers an innovative urban agenda—building on first-term successes—to help meet the challenges of the new century.

## I. THE DECADES OF DECLINE

*“For too long, too many Americans fled our cities. Poverty and hopelessness moved in when our middle-class neighbors moved out. Even if we see success stories reversing this trend, we cannot relax -- we must continue the sprint to make all cities the centers of business, culture, and excitement – the pulse of America -- that they once were.”*

-- Richard M. Daley, Mayor of Chicago

The end of World War II saw the beginning of the suburbanization of America. As veterans returned home, many -- with the direct help of the Veterans Administration and the Federal Housing Administration (FHA) and the indirect boost of low gas prices and a dramatic expansion of the Nation’s roads and highways -- were able to buy the home of their dreams in the suburbs.

Hit already by the suburbanization of the 1950s and 1960s, cities in the 1970s and 1980s saw a marked decline in their quality of life and economic prospects, dimming the optimism so long associated with the rise of the country’s great cities.

In many ways, these were the decades when the post-war suburbanization of American life actually reached its apex. As middle-class families increasingly moved from cities to outlying towns, businesses joined them, setting up shop in office and industrial parks. Shopping and entertainment followed.

Throughout the low-growth 1970s, conditions in America’s distressed cities deteriorated rapidly -- population fell, incomes rose sluggishly, poverty and unemployment increased, crime and social problems became more intense and intractable.

- ***The Nation’s Cities Became Poorer and Many Lost Population in the 1970s and 1980s.***

Economic growth, which had averaged almost four percent annually since 1940, slowed to 2 percent per year between 1973 and 1982.<sup>11</sup> Throughout the 1970s, conditions in distressed cities deteriorated rapidly as the U.S. urban population declined and the income of those left behind diminished. Cities in the Northeast and Midwest were much worse off than those in the South and West. At the end of the decade, eight of the ten most distressed cities in America were in the Northeast and North Central regions of the country -- regions of the country experiencing such levels of decay that the popular press referred to them collectively as “the Rust Belt.” By contrast, the cities that showed

improved economies and living standards were overwhelmingly in the South and West.<sup>12</sup> At the same time, these regions increased in number of people and industry.

Urban life in these distressed Rust Belt cities went from bad to worse in those years, as decay and decline made the boom cities of the Sunbelt and West seem even more attractive to businesses and workers alike. A study conducted in 1984, looking at socioeconomic factors from 575 U.S. cities, demonstrated that if a city was in trouble in 1970, it was in deeper trouble a decade later.<sup>13</sup>

When updated a decade later, the study found that while the most distressed cities had bottomed out, many of the cities that had previously done well were also showing signs of distress. This was particularly true in the South, where the collapse of the oil boom cut economic growth. Although some northeastern cities experienced economic improvements during the 1980s, the rate of economic progress continued to trail behind nearby suburbs.<sup>14</sup>

In 1980, median family income in the suburbs was 21 percent higher than the median in the cities. The gap widened by six percentage points by the end of the decade.<sup>15</sup>

While cities remained the essential hubs of metropolitan areas, suburban residents who once would have regularly worked, shopped, dined or been entertained in city centers now could -- and often did -- remain in the suburbs. Many of those with choices moved out of cities while poverty became increasingly urban-centered. City governments became more disproportionately responsible for dealing with the nation's social and economic difficulties.

- ***The Quality of Life Declined: More Poverty, Increased Crime and Drug Use, Declining Educational Standards.***

Overall, the quality of life in many of the nation's largest cities declined from 1970 to 1990 as evidenced by rising poverty, higher violent crime rates, increased drug use and abuse, declining population, increased pollution, and other factors. In some cities, real median family income fell, declining by 9 percent in Houston, 20 percent in Buffalo, 27 percent in Cleveland, and 34 percent in Detroit.<sup>16</sup>

The strains of urban decline were evidenced by a series of municipal fiscal crises notably those in New York, Cleveland, and Philadelphia.

Exacerbating these trends, in the 1980s, the federal government turned its back on the nation's urban problems. Direct federal aid to cities was cut. Generally, state governments have not made up for these cuts in direct federal aid to local governments. Local governments, instead, have been increasingly forced to rely on local taxes. But as more wealth and economic activity shifted to the suburbs, many city governments found their ability to raise revenue insufficient to cover the cost of providing services.

Cities struggled to keep up. Many were forced to cut services lest they tumble into bankruptcy court. Urban America's increasingly impoverished residents found city hall less able than ever to offer assistance. The crime rate rose; from 1970 to 1990, the number of violent crimes committed in cities doubled.<sup>17</sup> Furthermore, drug use and related crime has increased in parallel proportion in our Nation's cities.

Urban school districts increasingly lacked the wherewithal to upgrade facilities, attract talented teachers and administrators, and, in some cases, even buy new textbooks. From 1970 to the mid-1980s, scores on science proficiency tests declined for all age groups and mathematical proficiency scores remained flat.

- ***Employment Increased Three Times Faster In The Suburbs Than In Cities During The 1970s and 1980s.***

Given both the social and political forces that were turning against cities, and the fiscal woes resulting from the 1980s' federal policy of abandoning cities, the outlook seemed dim. Businesses became increasingly reluctant to invest in urban areas. Between 1970 and 1990, the number of employed suburban residents grew by 76 percent while central city employment grew by only 25 percent.<sup>18</sup>

Unemployment rates in central cities have been generally higher than unemployment rates in suburban areas, often one-third to one-half again higher.<sup>19</sup>

- ***Problems Stunted City Growth.***

Given the decline of America's cities, and the decade of federal abandonment of responsibility for alleviating the nation's urban crisis, it is no wonder that those who could vote with their feet moved to outlying parts of metropolitan areas. This trend was most pronounced in the nation's largest cities. For example, as a group central cities in the Northeast lost 10 percent of their population in the 1970s and did not grow in the 1980s. Central cities in the Midwest lost population in both decades with a combined loss of 10 percent.

In the West, where populations increased as residents of other regions migrated westward, cities grew less than half as fast as nearby suburbs -- even though many western cities have expanded and annexed outlying areas. Between 1980 and 1990, the suburbs of Phoenix grew by 55 percent while the suburbs of San Diego grew by 41 percent.<sup>20</sup>

*“For a metropolitan region to prosper and grow, cities and suburbs must cooperate and coordinate. We can no longer afford to have our communities competing with each other. We are all neighbors and we should work together like neighbors.”*

-- Paul Helmke, Mayor of Fort Wayne, Indiana.

- ***Suburbs have grown four times faster than central cities.***

The U.S. population grew by 45 million people during the previous two decades. But given the trends favoring suburbs, it is no surprise that for every person taking up residence in a city, four others moved to the suburbs.<sup>21</sup>

- ***The Federal Government Did Not Do Enough to Help Cities During the Latter Years of Crisis and Decline.***

Just at the point when economic and social forces were mounting to the detriment of America's cities the most, the Federal Government dramatically cut its direct assistance to cities. This federal retrenchment, most dramatically affecting impoverished residents of cities, came as the most privileged in America experienced a boom in their relative economic standing. Some of the effects of federal policies during the 1980s are still visible today.

Ingenuity can often spring from great need. And during the 1980s, local governments had to take drastic action. Downtown revitalization efforts focused and leveraged remaining municipal resources on the most visible parts of many cities. Such efforts succeeded in bringing back many declining city-centers. Projects such as Baltimore's Inner Harbor, which turned a decaying industrial waterfront area into a gleaming corridor of offices, apartments, restaurants, entertainment and tourist attractions, drew accolades.

While this kind of urban redevelopment succeeded in stemming some of the effects created by two decades of urban retrenchment, these success stories came at a price; many cities had to pull already declining resources from the neighborhoods to give a boost to downtown cores. Successful as these efforts were, they often amounted to a kind of municipal triage: the patient was saved but remained in serious condition.

## II. CITIES ARE DOING BETTER IN THE 1990s, BUT REAL CHALLENGES REMAIN

While urban America is on the rebound, it still faces a number of problems -- as well as new challenges for the new century. This Section outlines the economic and social gains cities have made in the last few years -- and the impact of the Clinton Administration's urban agenda (part A). It then describes the core problems of cities (part B) -- and the new and dual challenges of welfare reform and immigration (part C).

### ***(A) THE FIRST TERM ECONOMIC AND URBAN INITIATIVES ARE WORKING***

The country's sustained economic growth pattern since 1993 has helped revitalize cities.

- ***Lowest Unemployment Rate in Nearly a Quarter Century.***

For the first quarter of 1997, the economy grew at an exceptional annualized rate of 5.8 percent, and unemployment dropped below five percent for the first time in 24 years. Remarkable and sustained economic expansion over the last 5 years has brought the unemployment rate down in the nation's 50 largest cities by nearly a third over the past four years. By 1996, rates below 4 percent were enjoyed by Indianapolis, Columbus, Austin, Nashville, Oklahoma City, and Charlotte. But some cities were still mired above 10 percent, namely, El Paso, Fresno, and Miami.<sup>22</sup>

**Exhibit 1: Unemployment Rates, January 1993 and 1997 (in percent)**

	January 1993		January 1997	
	City	Suburbs	City	Suburbs
Top 50 total	9.2	6.4	6.5	4.2
All MSAs*	8.8	6.9	6.3	4.7
U.S. total	7.3		5.4	

Source: BLS, Local Area Unemployment Statistics

\* Metropolitan statistical areas

- ***Deficit Cutting in Washington Frees Capital for Productive Use in Cities.***

America's growing economy is being strengthened by fiscal responsibility in the form of declining federal deficits. The federal deficit has been cut by more than three



fourths since 1992 -- to its lowest share of the economy since 1974. The total deficit over the 1993 to 2002 period is more than \$2.5 trillion less than it would have been. This means \$2.5 trillion less of borrowing from the federal government, freeing up resources for productive use elsewhere in the economy. With the federal government competing less for capital, the cost of borrowing has gone down for everyone -- a net benefit to local governments when they need financing. For instance, in 1993 alone, interest costs associated with city, state and school board bond issues declined by over 3 billion dollars as a result of federal deficit cutting.<sup>23</sup>

With growth generating income, and low and stable inflation keeping borrowing costs down, city officials say they are quite optimistic about their ability to maintain municipal services without raising taxes. This is a far cry from the service cuts and tax jolts common just a decade earlier. This optimism is based on five solid factors:

1. All but three of 77 large cities examined had investment grade bond ratings of BBB or higher. (The three cities with lower bond ratings -- Washington, DC, Miami, FL and Providence, RI -- each had unique problems that put them outside the national trend.)<sup>24</sup>
2. Overall, state and local governments reported budget surpluses in 1995 for the first time in almost a decade. At 4 percent of expenditures, these surpluses were sizable -- bigger than any during the past two decades.<sup>25</sup>
3. A National League of Cities survey shows mayors, on average, rating their cities' financial condition, on a scale of one to ten, as 7.7.<sup>26</sup>
4. Federal aid to cities is increasing faster than the rate of inflation. From 1993-96, real federal assistance to state and local governments was, on average, 40 percent greater than in the preceding 12 years.<sup>27</sup>
5. With more money coming into municipal coffers, city governments have generally been able to balance budgets while increasing, rather than cutting, expenditures for municipal services.

- ***Cities Are Responding to the New Era.***

Cities have retooled themselves, to some degree, from the previous two decades of decline as the U.S. economy moved away from manufacturing toward information-based and service industries.

While some cities, notably Detroit, have benefited by America's increased international competitiveness for such heavy industrial goods as automobiles, many other cities have re-oriented themselves toward emerging industries -- leaving the remaining manufacturing to the suburbs.

*“There were many who thought international competition would overwhelm our cities. That hasn’t been the case. American ingenuity should never be underestimated. In Detroit, our residents are building the best cars in the world – and we are driving them to the bank.”*

-- Dennis W. Archer, Mayor of Detroit.

Many cities have transformed themselves into knowledge centers where high quality intellectual services are clustered to meet the needs of clients across the country and around the world. For instance, New York, Los Angeles and San Francisco have excelled in creating clusters devoted to multi-media production -- a hallmark of the digital age. Banking, insurance, engineering, communications, law, marketing and accounting are higher-level service businesses typically clustered in central cities. Hospitals, educational institutions -- notably colleges, universities, and research centers -- have long existed in cities.

Recognizing the importance of a skilled workforce in sustaining the economic base, cities are devoting more attention to education. Good school systems provide additional benefits to cities by helping retain middle-class families. To prevent Chicago from becoming a city of only the rich and the poor, Mayor Daley took control of Chicago’s schools away from the school board. In May 1995, the Illinois Legislature gave the Mayor unprecedented control over the city’s schools, including their unions and their budget. The new law reorganized management along corporate lines. It gave Mayor Daley the power to appoint members of the new Chicago School Reform Board of Trustees to take over the functions of the independent school board. It also allowed the Mayor to make private any functions he wanted and gave the city control over school finances. The path toward reform has already begun with a strong, centralized leadership controlling the schools, a new management structure for monitoring needed changes, and a push for a strict ‘back-to-basic’ approach to learning.

Many have expanded to meet the demands of an information-based economy -- creating new opportunities within the surrounding community. Urban revitalization efforts have further brought shopping, tourist and entertainment dollars back to downtown areas through creation of such people-magnets as festival marketplaces, updated convention centers, new sports arenas and post-industrial waterfront attractions.

Cities and other communities are also making greater efforts to use citizen service to reach children in their communities. Under the leadership of President Clinton and all the living former Presidents, the Presidents’ Summit for America’s Future hosted over 100 communities in Philadelphia in April of this year. There corporate and nonprofit organizations made commitments to increased citizen action.

The successes of cities have led to a sense of optimism among mayors and chief elected officials. When asked in a recent National League of Cities survey, to compare the

condition of their city in January 1997 with its condition a year earlier, the respondents saw improvements across the board from crime to economic conditions to infrastructure.<sup>28</sup>

**Exhibit 2: National League of Cities Survey Results,<sup>1</sup> January 1997**

<b>Percent of officials responding to change in city conditions over the past year (1996) in each category</b>			
<b>Condition</b>	<b>Improved</b>	<b>Worsened</b>	<b>No change</b>
Violent crime	44	15	41
Unemployment	49	11	41
City fiscal conditions	46	17	38
Neighborhood vitality	46	10	44
Police/community relations	61	7	32
Overall economic conditions	55	9	36
Volunteerism/community services	48	6	46
Infrastructure	51	15	34
Recreation	58	3	39

Source: The State of America's Cities (National League of Cities, January 1997)

<sup>1</sup> In the National League of Cities survey, mayors and chief elected officials indicated the direction in which each condition listed had changed in their communities over the past year.

There is reason for this optimism -- not only because of a strong economy but because the Clinton Administration has undertaken a wide range of urban initiatives.

The goal of this administration's urban policy has been to empower cities, businesses, and communities to build on the hard work of recovery already accomplished. Acting alone, the federal government simply cannot reconnect people and neighborhoods to opportunity and prosperity.

The Clinton Administration's new activism -- coupled with a new empowerment approach led by the Vice President -- is working. Community empowerment means that rather than issuing mandates, the federal government should be an instrument to create opportunity in the private sector, as well as assist residents and community-based organizations to identify and solve problems locally.

In an age characterized by global competition and information-based economic power, the question is which cities will be successful in making the transition to a new economy. Cities must work in partnership with the Federal Government and the private sector, to further nurture both their human and physical infrastructures. No one understands local needs and conditions better than people who live in the community. The federal government is now serving as a partner -- offering a mix of resources so communities can work out suitable solutions from the bottom-up.

In fact, after declining in the 1980s, real direct federal aid to State and local governments has been growing since 1992. The average real contribution from 1993 through 1996 was 40 percent higher than the average for the preceding 12 years.<sup>29</sup>

Reflecting this commitment to a national partnership for community empowerment, the administration has launched important initiatives that already are showing results.

- ***Raising the Minimum Wage and Protecting the Earned Income Tax Credit to Assist Low Wage Workers to Help Themselves.***

Increasing the minimum wage coupled with the 1993 expansion of the Earned Income Tax Credit are two ways the administration has sought to put real dollars in the hands of those who work so they can better meet life's necessary expenses. Further, since the administration implemented its 1993 legislation to make permanent the Low Income Housing Tax Credit, 230,000 new homes have become available for Americans with lower incomes.

Preserving the ability of the working poor to help themselves is one of the most significant issues we face today. Such initiatives are especially significant as the nation works to end welfare as we know it -- promoting the independence created by employment.

- ***Empowerment Zones and Enterprise Communities Bring Economic Development to Struggling Communities.***

History instructs that, above all, effective community development works best with a combination of local empowerment and federal assistance. With this bottom-up approach in mind, the administration's program for Empowerment Zones and Enterprise Communities offers a challenge to hundreds of cities: they create an economic growth and community reinvestment strategy for targeted low income neighborhoods. If the strategy emphasizes private sector growth, bringing both business and local communities together to execute the plan, then the federal government will bolster these local efforts with a full menu of grants, employer tax credits, and regulatory waivers.

Initial reports from the Empowerment Zones have displayed impressive results, with a HUD review – based on a number of independent analyses – noting progress in 67 of the 72 urban Empowerment Zones and Enterprise Communities. One of those analyses, a study conducted by the Rockefeller Institute of Government, cited the EZ initiative as, “ among the most significant efforts launched by the federal government in decades...”

Empowerment Zones have made significant strides in utilizing EZ funds and tax incentives to attract notable private investment, generate job growth, stimulate business operations and expansions, construct housing, expand homeownership opportunities, and stabilize deteriorating neighborhoods. During the first eighteen months, well over \$2 billion of new private sector investment has been made or committed in the six Empowerment Zones.

- In Detroit, thousands of jobs have been created and more than \$2 billion in private sector investments have been committed. The EZ has been aggressive in using its designation and associated tax benefits to attract businesses, revitalize its manufacturing base and generate jobs. Chrysler has located a new engine plant in the Zone. Parts suppliers, packaging industries, service and food firms have followed.
- The Los Angeles Supplemental Empowerment Zone used its \$125 million in HUD Economic Development Initiative grant funds and \$315 million in HUD Section 108 loan guarantees to successfully create the largest non-commercial lending institution in the nation, the Los Angeles Community Development Bank. The bank has partnered with several private lenders, which have agreed to commit \$210 million in loan funds, bringing the total loan pool to \$640 million. These funds will be loaned to expand existing businesses and start new ventures in the designated zone.
- ***Making Investment Capital Available In Economically Distressed Areas.***

A reality of economic and community development is that financing helps make things happen. By strengthening the regulations related to the Community Reinvestment Act, the amount of traditional bank financing for projects in distressed urban communities has increased.

The Treasury Department reformed the Community Reinvestment Act (CRA) regulations to emphasize performance, not paperwork, and stood firm against attempts to eviscerate the CRA. During this administration, nonprofit community groups estimate that the private sector has pledged \$96 billion going forward, which is more than two-thirds of all commitments made since CRA’s enactment in 1977. Recent Home Mortgage Disclosure Act data show that lending to minority and low-income borrowers is on the

rise. From 1993 to 1995, home mortgage lending to African Americans increased by 70 percent, lending to Hispanics rose nearly 48 percent, and lending in low and moderate income neighborhoods increased by over 25 percent. Moreover, national banks supervised by Treasury's Office of the Comptroller of the Currency made over \$403 million in innovative community development investments in 1995, a 422 percent increase over 1992, leveraging an additional \$1.6 billion in private and public resources.

Substantial additional investment capital is generated through Treasury's Community Development Financial Initiatives (CDFI) Fund. The CDFI Fund nurtures community-based lending by building a nationwide network of self-sustaining, locally-based, community development institutions -- including banks, thrifts, credit unions, micro-lenders, and venture capital funds. Over time, the program expects to leverage \$10 in private investment for every federal dollar contributed. Hundreds of these institutions have been created around the country, helping to create jobs and rebuild neighborhoods. The President has proposed investing \$1 billion in the CDFI over the next five years.

Treasury has also launched a new Presidential Awards program for micro-enterprise development, which this fall recognized innovative and outstanding programs that help empower low-income Americans.

- ***HUD's Economic Development Initiative (EDI) Creates Jobs and Leverages Private Investment.***

This initiative provides grant funds to enhance the security of HUD's Section 108 Economic Development Loan Guarantees. EDI was enacted and implemented in 1994. It enables localities to carry out economic development activities where public and private dollars can be leveraged to create jobs and other benefits, especially for low- and moderate-income persons, and reduce the risk of potential future defaults on supported projects. The EDI grants greatly expanded the role of guaranteed loans as a catalyst for economic development and built on the economic development successes of the Community Development Block Grant (CDBG). The estimated jobs created by EDI and the Loan Guarantee Program increased from 16,900 in 1993 to over 200,000 jobs in 1995. The Clinton Administration has requested \$50 million for EDI in FY98.

- ***The Bridges to Work Program Gets Urban Job Seekers to Employment in Suburban Areas.***

The Bridges to Work program is helping overcome the geographic mismatch between workers and jobs by tailoring a combination of transportation and child care options to assist those without a car to commute to otherwise inaccessible suburban job sites. This linkage, in turn, will bring much needed money back to distressed urban communities -- where these new "reverse" commuters will seek goods and services. As

businesses grow where markets are created, the Bridges to Work program will also serve, longer term, as an economic development tool for blighted urban areas.

Such programs are important links in the Welfare Reform efforts at the center of the administration's emphasis on community building and personal responsibility. Those moving from welfare to work will need an estimated one million jobs in the next two-to-three years. By developing marketable skills through training initiatives such as these, the move away from welfare has a better chance of succeeding.

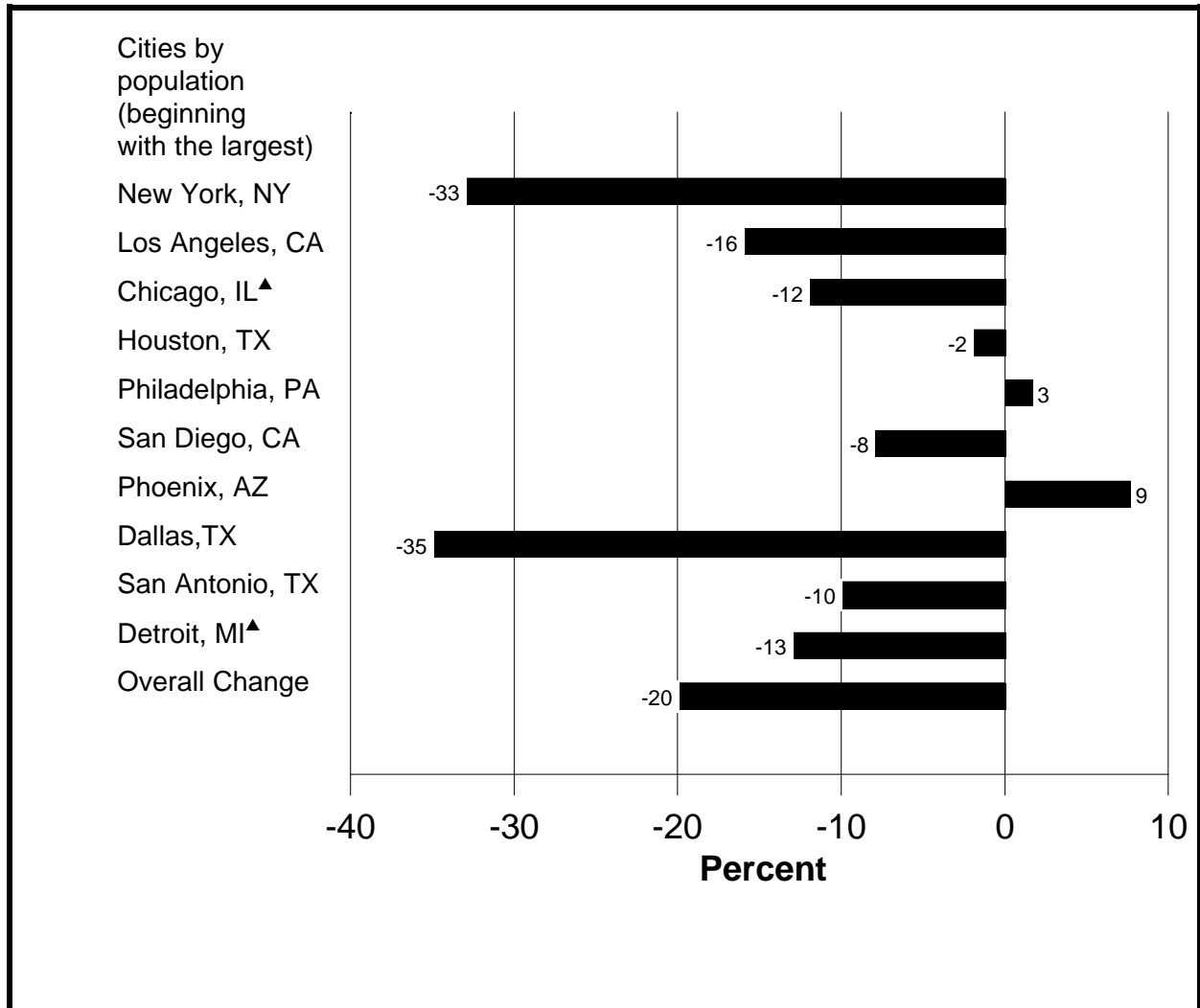
- ***The Community Oriented Policing Strategy is Putting 100,000 More Police On The Beat.***

While central cities tend to be safer than they were during the years of decline, crime fighting initiatives must further reach into the neighborhoods so that children can go to school without fear, citizens can sit on their stoops and porches without worry, and businesses can bring wealth and opportunity to the community.

The administration's Community Oriented Policing strategy is bringing law enforcement down to the neighborhood level by building bridges between police departments and the communities they serve. The Justice Department's Office of Community Oriented Policing Services (COPS) has authorized funding to hire or redeploy more than 64,000 additional community policing officers nationwide. More than half of the law enforcement departments in the country are participating, and 80 percent of the country's population will see more police in their areas. HUD will soon bolster these efforts by selling foreclosed homes to police officers in targeted communities for 50 percent below the appraised market value. Community policing means having police fully part of the community, and this new thrust of the Officer Next Door program will deepen those roots.

With crime on the retreat, the incentives for children to become part of the juvenile underworld of gangs, drugs and related violence diminishes as urban neighborhoods become safer places in which to learn and grow. In a world that increasingly demands higher level skills from the workforce, the true road to competitive success -- and community development -- is education. Children have trouble learning when they don't feel safe. Making their communities safer places will help make possible the kind of learning needed for the jobs of tomorrow.

**Exhibit 3: Percent Change in Violent Crimes in the Top 10 U.S. Cities, 1990–95\***



Source: Federal Bureau of Investigation. (1990, 1995.) Uniform Crime Reports for the United States, 1990 (1995 edition was also used). U.S. Department of Justice: Washington, DC.

\* "Violent crime" in this table refers to the number of incidents of murder, non-negligent manslaughter, forcible rape, aggravated assault, and robbery reported to the police. A ^ indicates missing data on a specific type of crime (forcible rape) and/or a specific year. (Specifically, this indicates that forcible rape data were excluded from the analysis.)



- ***The Brownfields Pilot Project Began Turning Contaminated Urban Wasteland Back To Productive Uses.***

Underutilized land is another asset many blighted urban areas have in fair supply, but are often unable to leverage in the interests of community development because previous industrial users have left behind contamination. The administration's Brownfields initiative, linking HUD with the Environmental Protection Agency, enables

cities to clean up these environmentally damaged properties and buildings in order to return them to economically useful purposes. So far, the Brownfields Initiative is poised to help clean up and redevelop more than 5,000 properties, supporting 196,000 jobs, and protecting the health of 18 million nearby residents. Recycling well-situated land in our cities also preserves valuable farmlands by reducing the need for businesses to move to the urban fringe to obtain suitable building sites.

- ***Preparing and Educating Americans for the Jobs of the Future.***

Education and training is the key, not only for children but also for adults already in the workforce, whose economic prospects have been diminished by the transition from an industrial-based to an information- and service-based economy.

Given the vast technological changes sweeping the economy, and the technological mastery required to thrive in the workplace of today and tomorrow, educational infrastructure improvements are more crucial than ever for everyone.

The administration supports School-to-Work programs for young Americans and consolidating the maze of training programs so that unemployed workers have easier access to learn new skills for today's economy.

- ***Every Classroom in America Should Be Connected to the Internet by the Turn of the Century.***

The administration has launched an effort to wire every classroom to the Internet by the year 2000. Likewise, the Campus of Learners program will demonstrate how public housing communities can be transformed into learning centers with on-site access to new technology. Additionally, HUD's Neighborhood Networks program helps bridge the 'digital divide' for low-income citizens. This partnership between HUD, local communities, and their college and university neighbors develops computer learning centers in HUD-assisted multifamily housing, bringing on-site access to job training, educational opportunities and the Internet to low and moderate-income neighborhoods. These centers help give residents of HUD-assisted housing the technological skills necessary to compete in a 21<sup>st</sup> Century workforce.

- ***Providing a Continuum of Care to Overcome the Multiple and Complex Causes of Homelessness.***

Efforts to stabilize communities must also directly confront problems arising from failed policies of the past. In the 1980s, homelessness -- the most visible scourge of American urban life -- rose dramatically. For the past three years, HUD has responded by providing a continuum of care approach, which is a community-based process that provides a comprehensive response to the needs of homeless individuals and families. The

continuum of care enables communities to shape a coordinated housing and service delivery system designed to address the needs of homeless persons so they can make the critical transition from the streets to jobs and independent living. In a recently released study, the Barnard - Columbia Center for Urban Policy indicated the continuum of care dramatically increased the number of persons helped to self-sufficiency and improved coordination at the local level.

Preventing homelessness in the first place is clearly the best solution of all. This means fighting the poverty that leads to a family's eviction from their rental home, as well as creating incentives for affordable housing. This is especially so in some of the nation's largest cities where the salaries earned by low-wage earners hardly meet the high cost of housing.

- ***Homeownership rates rise to the highest level in over 15 years.***

Community building is integrally tied not only to increasing economic opportunity, but giving residents pride in their neighborhoods. And nothing builds such bonds of pride as home ownership.

**Exhibit 4: Progress Toward National Homeownership Goal of 67.5 Percent by the Year 2000**

	<b>Current rate (1st quarter 1997)</b>	<b>Rate at the end of 1994</b>
Nation overall	65.4%	64.2%
Central cities	49.8	48.2
Minorities	45.3	43.7
Female-headed households	50.5	48.7
Households with less than median family income	49.9	48.6
Married couple families under age 35	58.1	57.1
Increase in number of homeowners since end of 1994	2,550,000	

Source: Current Population Survey, Bureau of the Census

Today, 65.4 percent of Americans own their own homes -- an increase of 4.7 million homeowners since the start of 1993. In the past year, the homeownership rate has reached its highest level in 15 years. This trend will be furthered with the recent announcement that the Federal Housing Administration will lower its up-front mortgage insurance premium for first-time homebuyers who receive counseling. The President's

National Homeownership Strategy aims to achieve record levels of homeownership by the turn of the century. Experience proves that as homeownership increases, community stability likewise increases bolstering economic development, education and public safety efforts.

This year, HUD is investing more than \$100 million for construction and development of private homes in a series of urban “Homeownership Zones” nationwide. HUD is assisting in the purchase of tracts of urban land where private organizations, such as the Enterprise Foundation, organize, build and market homes to people who would otherwise be renters. This represents an important part of the administration’s commitment to its Empowerment Zone program.

### ***(B) CITIES STILL FACE REAL PROBLEMS***

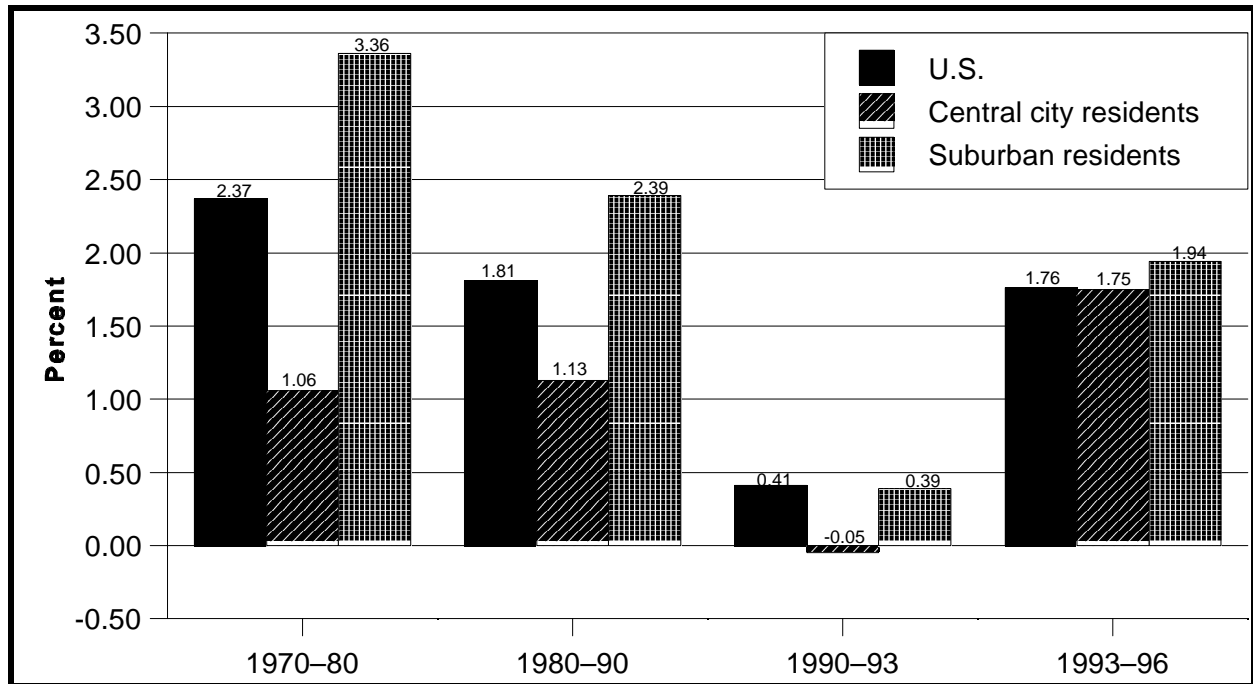
The success story involving America’s cities today, while real, is neither as deep nor as wide as it could be. This report -- using in large part previously unpublished data from the Bureau of Labor Statistics and the Census -- finds three main problems still facing cities:

#### **Finding #1: Over at least the past 25 years a significant disparity has emerged in job creation between the cities and the suburbs -- and the cities continue to lag.**

- ***Unemployment Is Consistently Higher in Cities and Employment Growth Is Slower.*** Over the past several decades central cities have always had higher unemployment rates than suburbs and, since 1970, the number of employed city residents has risen at a rate only half as rapid as the United States as a whole, and barely one-third of the rise for suburbanites.

Unemployment has been receding steadily throughout the United States since 1993 and central cities have benefited from this recovery. Yet rates remain -- as always -- higher in central cities than elsewhere in metropolitan regions. Cities, which often have disproportionately large pools of lower skilled workers, typically experience unemployment rates one-third to one-half higher than nearby suburbs. This is especially true in large cities, where disparities between urban and suburban unemployment are greatest. Their residents are often the first to be idled by hard times and the last to be absorbed back into the labor market when times improve. For example, the central city unemployment rate in 1996 was 6 percentage points higher in Cleveland, 5.2 percentage points higher in Washington, and 4.7 percentage points higher in New York than in their surrounding suburbs. Even with the remarkable progress Detroit has made in lowering its unemployment rate, the central city rate was still 5.7 percentage points higher than the suburban rate.<sup>30</sup>

**Exhibit 5: Annualized Employment Growth, 1970–96**



Source: Census of Population and Housing (1970–90); Local Area Unemployment Statistics (1990–96)

The 1990-91 recession created an actual decline in central city employment that lasted until 1993. Suburban employment continued to grow during this period but at much lower rates than over the preceding two decades. After 1993, the employment growth rate in central cities and suburbs has been roughly equal -- but cities have not closed the gap previously created.

- ***Suburbs Are The Great Job Creators.*** In the 1990s, suburbs have continued to gain the lion's share of new jobs.

Cities continue to serve their traditional role as a primary business center for metropolitan areas -- they host 38 percent of all metropolitan businesses and 43 percent of all jobs in the 77 cities examined. However, between 1991 and 1993, cities were net losers of jobs while jobs in suburbs grew by over 10 percent.<sup>31</sup>

**Exhibit 6: Change in Metropolitan Jobs by Location and City Size, 77 Cities, 1991–93**

<b>Population</b>	<b>Central cities</b>	<b>Suburbs</b>
Less than 250,000	1.6	5.5
250,000–500,000	– 1.0	9.8
500,000–900,000	1.0	16.3
More than 900,000	– 3.1	7.9
All MSAs	– 1.3	10.4

Source: Standard Statistical Establishment List

During this same period 97 percent of all new business establishments were located in the suburbs of these metropolitan areas and only 3 percent in central cities.<sup>32</sup>

- The 1990/1991 recession cost large cities many jobs.*** Of the 19 cities for which data are available through 1995, almost half (9) lost jobs between 1990 and 1993. New York City lost 275,000 jobs. The economic recovery has helped these cities by reversing or slowing the job loss. While most of these cities are experiencing job growth, 6 of the 19 continued to lose jobs through 1995. Despite the turnaround after 1993, New York City still had 250,000 fewer jobs in 1995 than in 1990. Only six of the ten largest cities have more employed residents today than in 1990.

**Exhibit 7: Change in Jobs 1990 to 1995 for 19 Selected  
Central Cities<sup>1</sup>**

<b>City</b>	<b>Population rank</b>	<b>Change 1990 to 1993</b>	<b>Change 1993 to 1995</b>	<b>Change 1990 to 1995</b>
New York	1	- 273,435	23,751	- 249,684
Philadelphia	5	- 52,999	- 15,726	- 68,125
San Antonio	9	37,808	44,211	82,019
Indianapolis	12	12,031	22,519	34,550
San Francisco	13	- 49,652	- 2,800	- 52,452
Baltimore	14	- 50,726	- 10,265	- 60,991
Jacksonville	15	8,589	29,850	38,439
Washington	20	- 14,644	- 28,331	- 42,975
Austin	23	51,627	44,480	96,107
Nashville	24	19,713	22,485	42,198
Denver	25	12,292	14,275	26,567
New Orleans	27	- 4,165	4,686	521
Norfolk-Virginia Beach <sup>2</sup>	NA	- 1,606	7,562	5,956
St. Louis	43	- 9,986	- 626	- 10,612
Wichita	54	3,937	3,599	7,536
Corpus Christi	59	5,861	5,956	11,817
Anchorage <sup>3</sup>	64	6,012	3,067	9,079
Lexington	69	5,428	7,127	12,555
Richmond-Petersburg <sup>4</sup>	NA	- 15,933	- 4,506	- 20,439

Source: Bureau of Labor Statistics, ES-202

<sup>1</sup> The Bureau of Labor Statistics jobs data available are for counties. The cities reported in this table are either coterminus or nearlycoterminus with their county boundaries. For seven cities—Austin; Corpus Christi; Indianapolis; Jacksonville; Nashville; San Antonio; and Wichita—the city/county population overlap is slightly less than 100 percent.

<sup>2</sup> Virginia Beach is the 35th largest city; Norfolk is the 67th largest city.

<sup>3</sup> Anchorage is coterminus with its metropolitan area and therefore has no suburbs.

<sup>4</sup> Richmond is the 78th largest city; Petersburg is the 682nd largest city.

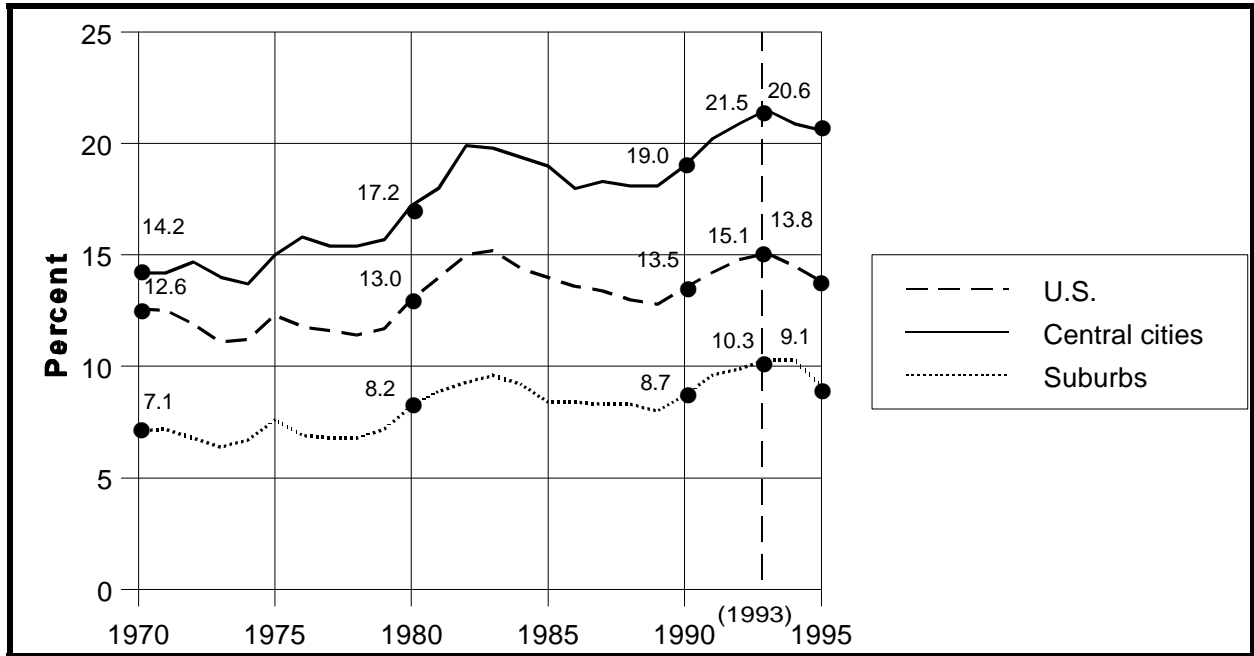


- ***The Jobs and Skills Mismatch.*** Aggravating the urban employment situation -- and the great need for people coming off the welfare rolls to find entry level and low skill jobs -- is a mismatch between the urban workforce and the jobs that are being created in cities. For example, in the early 1990s, 87 percent of the new jobs in the lower-paying and lower-skilled service and retail trade sectors were created in the suburbs.<sup>33</sup> Compounding that situation, large numbers of low-skilled jobs that can serve as a first step in breaking the cycle of poverty lie in the suburbs and are often inaccessible using public transportation -- the only method of transport available to many of the city's most needy residents.
- **Cleveland:** Fewer than half (45 percent) of entry-level jobs in the Cleveland metropolitan area are accessible from central city neighborhoods (those in the Cleveland Empowerment Zone) within an 80-minute commute time. The remaining 55 percent are simply not accessible by public transportation.
- **Boston:** Boston has an excellent transit system, with stations within a half-mile of 99 percent of the city's welfare recipients. Still, it does not provide needed connections to available jobs: only 43 percent of employers are also within a half-mile of transit lines. Only 40 percent of employers in high-growth areas can be reached after a public transit commute of less than two hours.
- **Atlanta:** Three of every four job openings in the Atlanta area are in the suburbs. Two-thirds of entry level jobs paying less than \$15,000 annually are within a quarter-mile of a transit line; however, fewer than one of three entry level jobs paying more than \$15,000 annually -- those most likely to enable a welfare recipient to become self-sufficient -- are located within a quarter mile of a transit line.

**Finding #2: Over the past few decades, America's poor have grown more socially and economically isolated and more physically concentrated.**

- ***50 percent Increase in Central City Poverty from 1970 to 1993.*** Poverty rates in central cities rose steadily from 1970 to 1993, increasing by over 50 percent. Since 1993, the national poverty rate has fallen and there has been a very slight decline in the central city rate as well. But in 1995, one of every five central city residents was still living in poverty compared to less than one in every ten suburban residents.

**Exhibit 8: Poverty Rates, 1970–95**



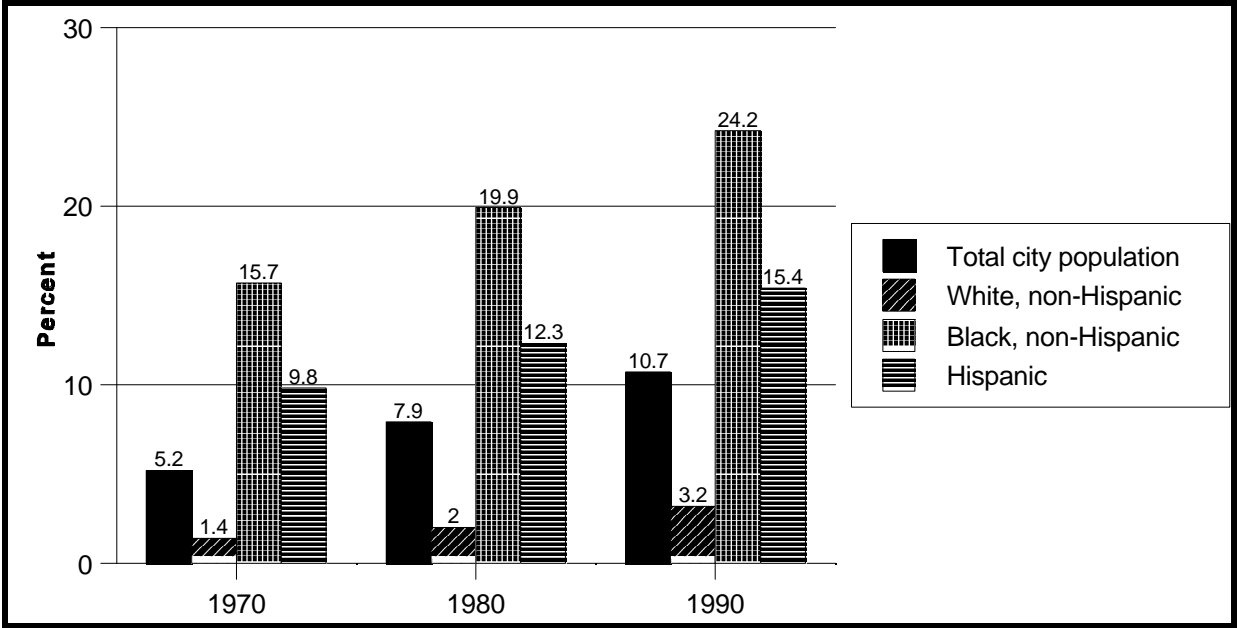
Source: Current Population Survey

- ***Poverty rates vary greatly by race.*** In 1995, the poverty rate for whites (not of Hispanic origin) was 6.4 percent; for Asians and Pacific Islanders it was 12.4 percent; African Americans, 26.4 percent; and Hispanics 27.0 percent.
- ***Poverty imposes a heavy burden on cities.*** While central cities house only 30 percent of the population, they are home to 45 percent of the nation's poor. This burden is especially heavy for some cities. In 1990, the poverty rate exceeded 30 percent in Detroit, New Orleans, and Miami. Poverty especially afflicts minorities. Poverty rates surpassed 40 percent for African Americans in Miami, Milwaukee, New Orleans, and Pittsburgh and for Hispanics in Buffalo, Cleveland, Hartford, and Philadelphia.<sup>34</sup>

A particularly alarming trend has been the growth of poverty ghettos.

- ***Poverty concentration has doubled.*** More than 10 percent of all city residents live in neighborhoods where the Census Bureau reports that 40 percent or more of the households are living below the poverty line, a doubling of the level of concentration in 1970.<sup>35</sup> In many of these places, intense and increasingly long-term poverty and welfare dependency occur simultaneously with alarmingly high rates of crime, drug abuse, single parenthood, high school dropout rates and other social problems.

**Exhibit 9:** Share of City Population Living in Tracts With at Least 40 Percent Poverty, 100 Largest Cities, 1970–90

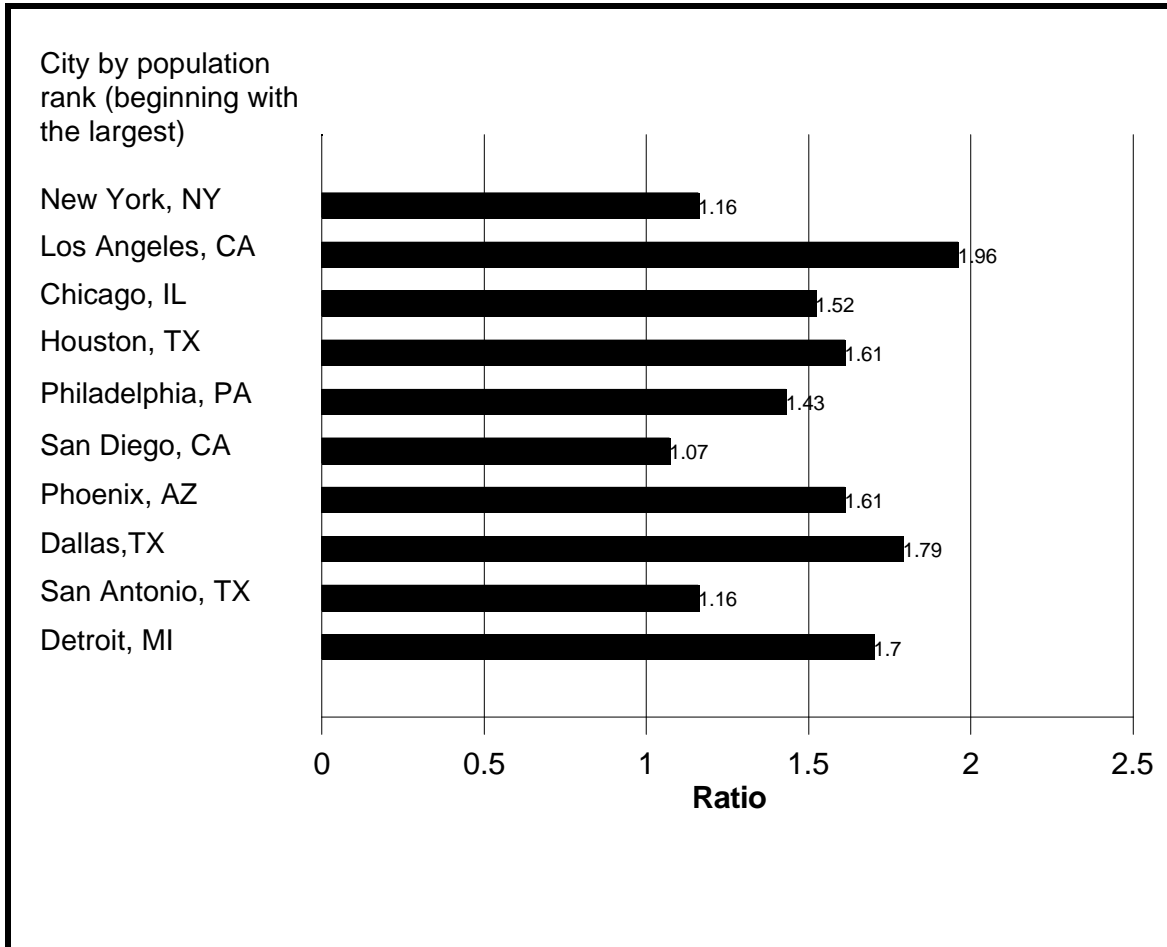


Source: Kasarda, John D. "Inner-City Concentrated Poverty and Neighborhood Distress: 1970 to 1990," *Housing Policy Debate* 1993, vol. 4, no. 3, pp. 253–302.

These high poverty tracts are almost exclusively inhabited by minorities. In 1990, 85 percent of the residents were minorities. As a result, almost a quarter of the African-American population and nearly one-sixth of the Hispanic population in central cities are isolated in these high-poverty neighborhoods. (Similar data was not available for Asians and other groups.)

- ***The concentration of poverty is eating away at the residential core of central cities.*** In 1970, only 6 percent of all census tracts in central cities were high poverty tracts; by 1990, this had more than doubled to 14 percent.<sup>36</sup>
- ***Increasing burden on services.*** Growing poverty places increasing service delivery burdens on cities while reducing the tax base available to finance these services. School system performance is an important example of how this fiscal dynamic weakens cities' ability to carry out their functions and simultaneously reinforces poverty. With more students from impoverished homes and immigrant children for whom English is a second language, city schools face greater burdens. Urban schools also tend to be more segregated. The combination of fewer resources and greater challenges results in higher dropout rates in large city

**Exhibit 10: Ratio of City School Dropout Rate to National Rate (1990)**



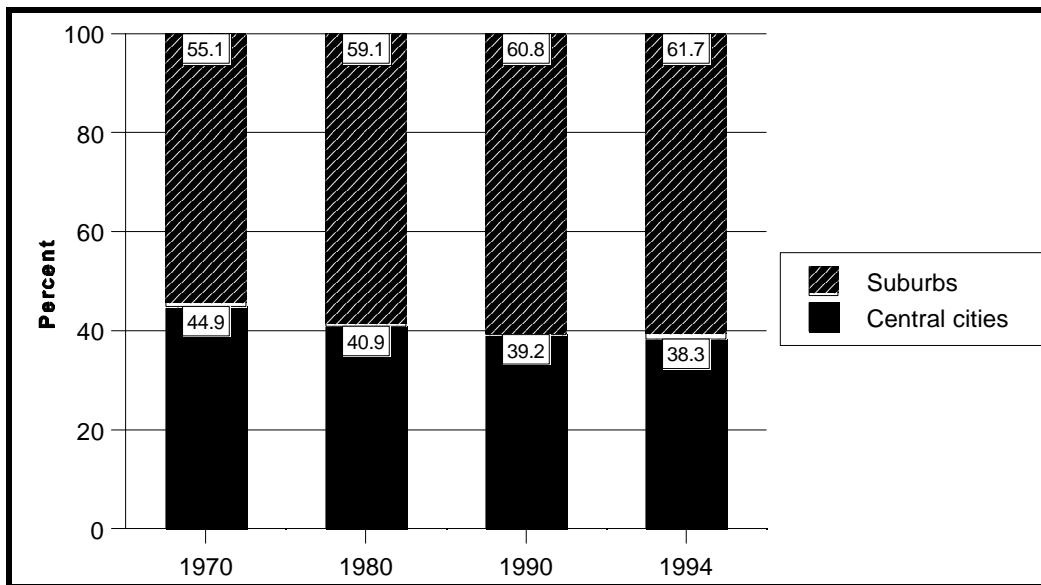
Source: Department of Education

schools. While some large school systems, for example, New York City and San Diego perform close to the national norm, others have dropout rates 50 percent, 70 percent, and even almost 100 percent higher.

**Finding #3: The long-term migration of the middle class from cities to suburbs continues into the 1990s.**

- ***Many City Populations Have Been Declining.*** Only 11 of the 30 largest cities in 1970 have more population today. Population losses continued into the 1990s in some instances. Population losses were particularly severe in St. Louis, which lost 40 percent of its population, and in Detroit, Cleveland, Pittsburgh, and Buffalo, each of which lost approximately one-third of its population.<sup>37</sup>

**Exhibit 11: City and Suburban Share of Metropolitan Population, 1970–94**



Source: Census of Population and Housing; Census Federal-State Cooperative Program for Population Estimates



Among today's ten largest cities, Los Angeles, Chicago, Philadelphia and Detroit lost population between 1990 and 1994. New York City barely held its own as a massive influx of immigrants made up for the large number of former city residents who left the city.<sup>38</sup>

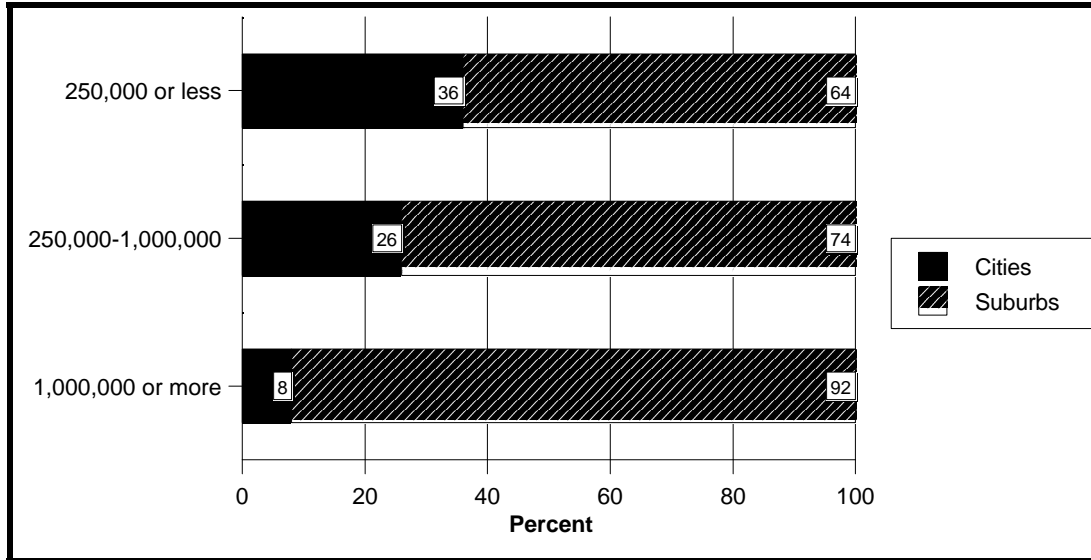
There has been a long term trend that has led to central cities being home to a shrinking share of the metropolitan population. In 1970, 45 percent of the metropolitan population lived in central cities; but, by 1994, the central city share had fallen to only 38 percent.

Between 1980 and 1990, the minority population in central cities grew by 24 percent while the non-minority population declined by 2 percent. Minorities constitute 60 percent or more of the population in Miami, Newark, Detroit, El Paso, Honolulu, Oakland, Santa Ana, Washington, Hartford, New Orleans, Atlanta, Birmingham, and San Antonio.<sup>39</sup>

During the decades of decline, residents fled cities for a variety of reasons, including increasing crime and declining school quality. As more residents fled, the tax base shrank, making it more difficult for cities to provide basic services – thereby encouraging more to leave and continuing the cycle of decline.

- ***Suburban Populations Are Growing.*** The growing dominance of suburbs is especially recognizable in the very large metropolitan areas. Among metropolitan areas with

**Exhibit 12: Distribution of Metropolitan Area Population Growth by Area Size, 1970–94**



Source: Census of Population and Housing; Census Federal-State Cooperative Program for Population Estimates

over one million inhabitants in 1994, the suburban population increased more than 10 times faster than the central city population between 1970 and 1994.

- ***The Urban Middle Class Has Been Shrinking.*** In 1970 the income profile of central cities was almost identical to the Nation as a whole. However, the loss of jobs and middle-class families over the ensuing two decades has fundamentally changed the income distribution within central cities. The proportion of high and middle-income families is decreasing, while the cities' share of low-income households has grown substantially.

**Exhibit 13: Distribution of Central City and Suburban Families by Income, 1969, 1979, and 1989 (in percent)**

Year	Low income		Middle income		High income	
	Central cities	Suburbs	Central cities	Suburbs	Central cities	Suburbs
1969	20.2	14.5	59.9	60.6	19.9	24.9
1979	23.6	14.7	58.0	60.4	18.4	24.9
1989	24.5	14.0	57.6	60.4	17.8	25.7

Source: Census of Population and Housing

NOTE: Low-income families have incomes below the national 20th percentile family income. Middle-income families have incomes between the national 20th and 80th family income percentiles. High-income families have incomes above the national 80th percentile family income.

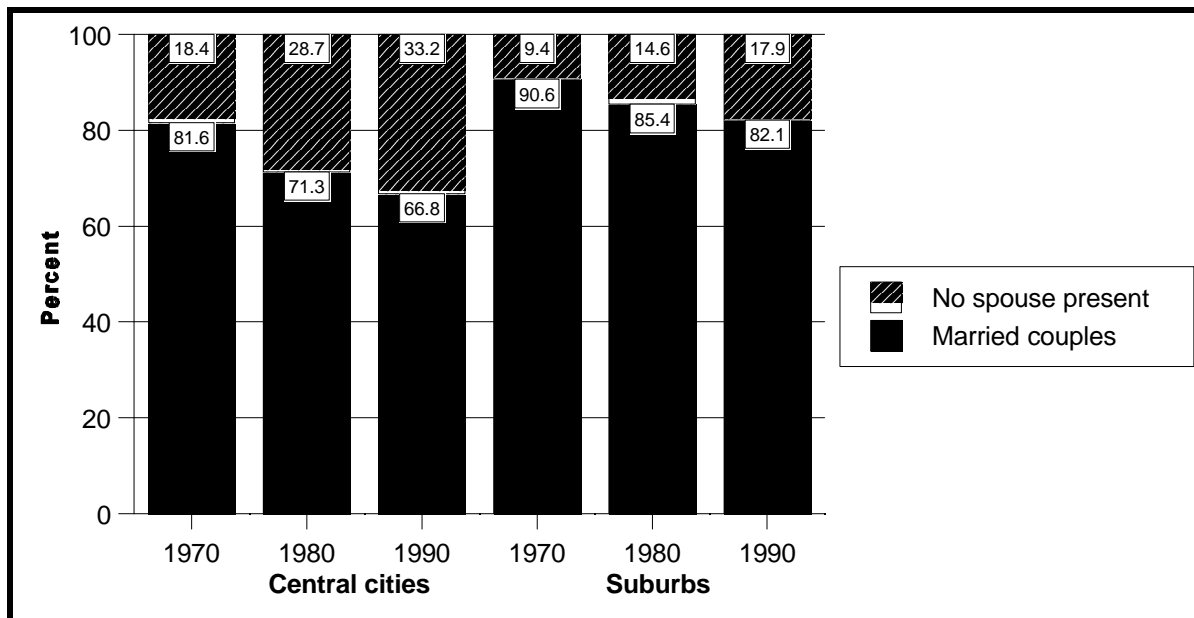
By contrast, the suburbs are increasingly becoming the province of more affluent families, while the proportion of those at the opposite end of the income scale continues to fall. This disparity is most stark and began earliest in metropolitan areas of over a million inhabitants, where 25 percent of the central city's population is low-income, compared to less than 12 percent of suburban residents.<sup>40</sup>

- ***Income Distribution Has Shifted Against Cities.*** Changes in income distributions for some cities were particularly striking and provide strong testimony to the impact of economic changes during the 1970s and 1980s. For example, Detroit in 1970 had a relatively balanced income distribution with 20 percent low-income families, 58 percent middle-income families, and 22 percent high-income families. By 1990, 40 percent of Detroit's families were low-income, 49 percent middle-income, and only 10 percent high-income. Other cities following Detroit's pattern include Cleveland, Buffalo, and New Orleans. Some cities displayed a bifurcation of the income distribution where the proportion of high-income and low-income families increased while the broad middle class declined. The two most prominent examples are Boston and Washington.<sup>41</sup>
- ***Middle Class Jobs Have Been Leaving Cities.*** There is also a new dynamic that makes it even more difficult for central cities to retain the middle class. The highest paying jobs in central cities are in industry groupings such as wholesale trade, depository institutions, and insurance carriers. Employment in these categories declined for the 77 central cities studied between 1991 and 1994 but average compensation in these categories rose, even after adjustment for inflation. It appears that firms are either eliminating middle-class jobs in these categories or moving these positions to suburban offices. The Census numbers confirm stories of large mid-level layoffs by major financial corporations and the movement of back-office functions to suburban locations.

- ***Loss of Families.*** Families are the bedrock of a stable community, and cities are still struggling to attract and retain them in the face of the suburban promise of lower density, better schools and less crime. In 1970, suburbs housed 25 percent more families than cities; today, suburbs house 75 percent more families than do cities.<sup>42</sup>
- ***Loss of Traditional Families.*** The demographic and social changes that have characterized the end of the twentieth century in America have been magnified in cities. With the aging of the baby boom and changing attitudes toward marriage and divorce, the number of two-spouse families with children remained essentially constant from 1970 to 1990, but the distribution of this total shifted more heavily towards the suburbs. The absolute number of families with children in central cities declined by over 200,000 between 1970 and 1990. During this time, the number of two-spouse families with children fell by 1.5 million in central cities while increasing by 1.3 million in suburbs. As a result, central cities are home to a disproportionate share of single-parent households -- with all the additional social services such arrangements often entail. Single-parent families outnumber two-spouse families in Hartford, Newark, Detroit, and Atlanta.

- ***The Challenge of Reversing the Trend.*** A forthcoming article highlights the challenges central cities face as they work to reverse the declining population of middle-class families.<sup>43</sup>

**Exhibit 14: Types of Families With Own Children  
in Central Cities and Suburbs, 1970–90**



Source: Census of Population and Housing

First, the study shows that, despite recent progress in America's cities, this trend has continued into the 1990s. Annual data constructed from the Current Population Survey continue to show that the number of high- and middle-income households moving from central cities to suburbs is substantially higher than the number moving from suburbs to central cities. For example, in 1996, for every middle and higher-income family that moved from a suburb in the Northeast or Midwest to a central city anywhere in the United States, over three families moved from a central city in the Northeast or Midwest to a suburb anywhere in the United States. The corresponding ratio for the South and West was more than four middle- and higher-income families moving to the suburbs for every one that moved to a central city.

Second, using the 1990 Census data, the study observes that households of all income levels who leave the central city typically settle in nearby suburbs while households who leave the suburbs typically move to other metropolitan areas. City dwellers seem to find the suburbs an attractive residential alternative but suburban dwellers leave the suburbs mainly because of employment changes.

Third, while immigration has helped sustain the population of large central cities, only three of 12 central cities studied attracted more immigrants than did their suburbs and the higher the level of household income, the more likely an immigrant household will settle in the suburbs. The study notes that: "In general, whites, two-parent households, and the middle-aged are leading the charge out of the central cities .... Black households with the same profile are close behind."

So while it is good news that the nation's cities are rebounding from their historic low points reached during the previous decades, their gleaming downtown areas, their healthier balance sheets and lower crime rates only tell part of the story.

Many city neighborhoods continue to show signs of distress and dislocation. The time is right for initiatives to extend and deepen America's urban renaissance; our goal must be to empower communities to make it happen. New initiatives and seeds of hope have started taking root. But they will need to be carefully nurtured before they can lead to a bountiful harvest.

### **(C) THE CHALLENGES AND OPPORTUNITIES AHEAD**

*"Community leaders must link their residents to jobs -- wherever they are. Transportation is the key. Workers must have a safe and reliable means of traveling to work regardless of where that job is located."*

-- Susan Savage, Mayor of Tulsa, Oklahoma

When the administration assumed office in January, 1993, the urban challenge was clear: how to best leverage federal help to empower local governments to make the most of the work they had already begun. As described above, our efforts are already bearing fruit. But our strategy for assisting Urban America to make an effective transition to the 21<sup>st</sup> Century is now confronting two additional challenges: the effects of welfare reform and immigration.

- ***Welfare Recipients Moving Into The Workforce Will Require An Estimated 1 Million Jobs.***

A fundamental tenet of the Clinton Administration is that all Americans must take responsibility for supporting themselves and their families. All those who can work, must work. Welfare should be a second chance, not a way of life.

This effort to end welfare as we know it requires the availability of employment opportunities for those making this crucial step toward personal independence.

Nationwide, recipients moving from welfare to work will need an estimated one million jobs in the next two to three years. The scale of the challenge to the cities is illustrated by the fact that amid our current economic expansion, over the past three years, the economy has created employment for only two million central city residents.<sup>44</sup> Overall, job growth in cities has been dramatically slower than in the suburbs -- especially for the lower skilled jobs suitable for most people moving from welfare to work.

While better economic development of cities represents part of the long-term solution, the administration's program to end welfare as we know it will also require efforts to help city residents find and commute to suburban jobs.

- ***Immigration Is At Near Record Levels, And Is Projected To Increase In The Coming Decade.***

*“Immigrants bring new ideas, new energy, and a new appreciation for American values and ideals. They challenge us to do better. We all benefit from their industry and prosperity.”*

-- Rudolph Giuliani, Mayor of New York

The United States has not had such a large influx of immigrants since the legendary days of industry-building at the turn of the century, when unskilled workers from distant lands were drawn by the promise of a better life. Today's immigrants, while generally hailing from different countries, carry many of the same hopes and aspirations: that hard work will be rewarded and lead to a better life.

As in earlier periods of intense immigration, today's new Americans are most likely to settle in large gateway cities such as Boston, New York, Miami, Chicago,



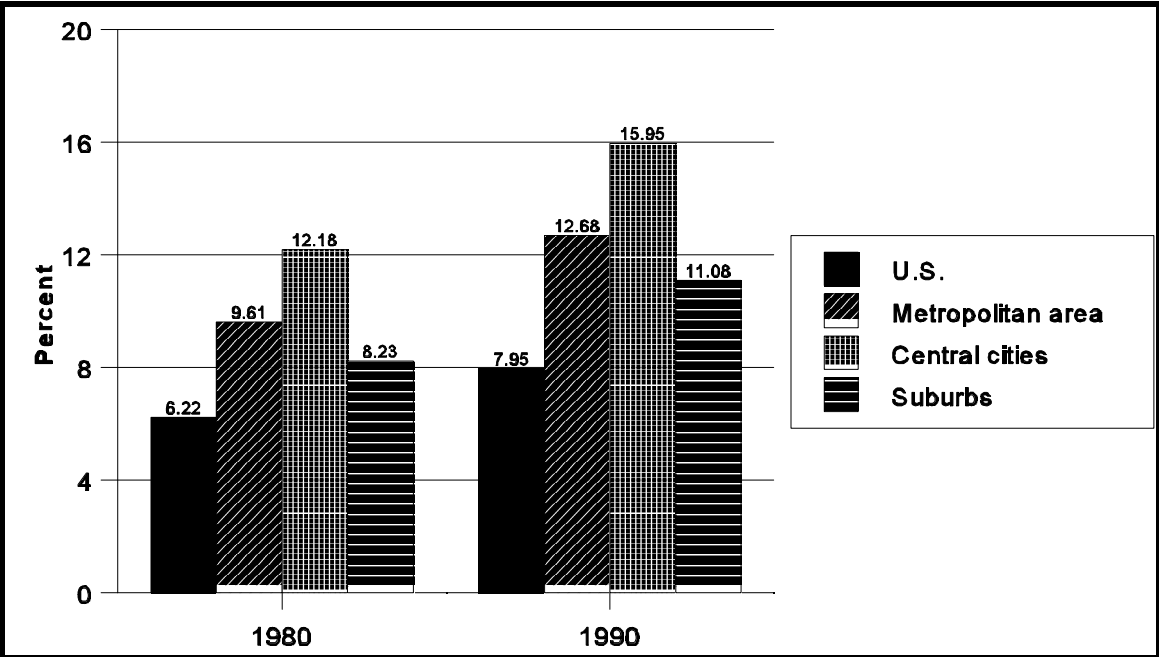
Houston, Los Angeles, San Diego, and San Francisco. Their hard work and energy has been a net bonus for the U.S. economy and presents us with an opportunity.

Immigrants are a positive force, bringing new energy, talent and resources to their adopted hometowns. As one New York demographer noted: As immigrants poured into the city in recent years, longtime New Yorkers poured out, at a rate of more than 100,000 a year. “This city was dying in the 1970s. Having more than 100,000 immigrants a year has helped mightily.” Similarly, among the children of immigrants in the Los Angeles public schools, 75 different languages are spoken.

The 1980s brought more immigrants to these shores than any other decade since the previous high point of 1900 to 1910 when more than 9 million immigrants arrived. Immigration from 1990 to 2000 is likely to prove even greater than during the 1980s. However, the United States is much more populous today, and immigrants represent a smaller percentage of the total population than in the peak period at the beginning of the 20<sup>th</sup> century.

In 1990, fourteen gateway cities, including the Boston, New York, Miami, Chicago, Houston, Los Angeles, San Diego, and San Francisco regions, contained almost 80 percent of the foreign-born population living in the 58 largest U.S. cities. Yet all types of communities are affected by immigration.

**Exhibit 15: Percentage of Foreign Born by Community Type, 1980 and 1990**



Source: Census of Population and Housing

Foreign-born persons are most highly concentrated in central cities (and made up 16 percent of their population in 1990). However, more than 11 percent of the populations of their suburbs were also foreign born. Immigration has grown so much in recent years, and immigrants have so spread out in metropolitan areas, that by 1990 foreign-born persons made up almost as large a proportion of suburban populations as they had of central city populations ten years earlier.

***Immigration Provides A Net Benefit For the Country.***

*“Cities in the United States are more diverse than any cities in the world. In an increasingly global economy, this diversity is a fabulous competitive advantage. It is the secret to our success.”*

-- Martin Chavez, Mayor of Albuquerque, New Mexico.

Immigration has played several important roles in the American economy in recent years.

- First, immigration increases the size of the domestic market for goods and services, and of the labor force.
- Second, highly skilled, educated immigrant workers meet the need for brain power in high technology sectors.
- Third, skilled immigrants from developing nations can help to generate international trade and investment opportunities for U.S. businesses. It is becoming clearer and clearer that these immigrants’ ethnic, cultural, and family ties to their home countries can be foundations for business relationships between the United States and the motherlands of America’s immigrants. Such ties may be of special importance in overcoming cultural and market barriers.
- Fourth, a strong case can be made that low-skilled workers enable U.S. firms to provide many goods and services that the United States otherwise could not produce efficiently.

### III. AN URBAN AGENDA FOR THE FUTURE

In an age of global competition, America cannot afford to be divided into two nations -- one doing well in the suburbs, and the other marginalized in urban neighborhoods. While the cities are now rebounding from two decades of economic and social transition, coupled with the anti-urban policies of the 1980s, America's urban renaissance is not yet solid.

In an effort to create One America, we must now build upon the past four years of success to insure that the gleam of booming downtown districts casts light on the neighborhoods. We must build on the momentum begun in 1993 and institutionalize the lessons learned and the approaches that have proven effective.

We must assist the creative spirit that seeks to build, from the bottom up, stronger communities. We must ensure that human capital is maximized through education, homeownership is fostered to give people a deeper stake in their communities, and that pure economic capital is made available so energy and entrepreneurship is freed, rather than stifled by the streets of urban America.

In 1993, President Clinton rejected failed policies of the past and created a new Urban Empowerment Agenda – initiating not just a shift in policy but in philosophy as well.

#### **EMPOWERMENT PRINCIPLES**

*“A rising economic tide has lifted all boats – some are in yachts, some are in rowboats, and some are treading water. But there are serious problems hiding just below the surface, and we can't afford to throw our cities the same old life raft.”*

-- Secretary Andrew Cuomo

The President has built his Empowerment Agenda on these core concepts:

- *Leverage Private Sector Investment.* Working with the market and private business, an empowerment approach aims to build upon the natural assets and competitive advantages of urban communities. For example, in virtually all existing EZs and ECs, efforts are underway to create new partnerships with the private sector which allow private capital to flow back into inner-city neighborhoods. Small amounts of federal funds are leveraging private capital into neighborhoods which for too long have not had significant investments. Rather than work against the market -- as too many poverty programs have done -- empowerment says that we must use market incentives and norms to create the healthy, mainstream communities all Americans desire.

- *Make Community Development Comprehensive.* Traditionally, communities plan development projects in a piecemeal fashion. An empowerment approach says that it doesn't work this way -- only a comprehensive, multi-year approach will allow communities to solve underlying problems rather than merely treating symptoms. As the Vice President says, only a "whole systems" plan will get the right results.
- *Trust the Community.* Traditional community development has too often been top-down, directed by bureaucrats in Washington. But the days of "Made In Washington" solutions are over -- and the President's approach promotes solutions that are locally shaped and implemented at the grassroots, involving community residents, private businesses, the growing and entrepreneurial network of community based organizations and all levels of government. The early experience has shown that this process often produces significant tensions, but such tension has been a barometer of the community commitment to achieving full community buy in, and thus generating lasting change.
- *Demand Performance.* Performance measurement is an important part of ensuring that federal tax dollars and tax incentives are used effectively -- a way to ensure accountability, put performance over process and protect the public trust. The right federal role says that the community must take the lead -- but the federal government must be a responsible steward of public funds, offering flexibility and local control but demanding results in return.
- *Build on Mainstream Values.* Finally, an empowerment approach affirms traditional values such as hard work, family and self-reliance. President Clinton recognizes that the problems of so many inner-city neighborhoods -- family breakup, crime, drug abuse, teenage pregnancy -- are not subject to government solutions alone, but call upon individuals and their communities to set and maintain high standards of behavior and mutual responsibility. Instead of perpetuating dependency, we must nurture self-reliance, helping people to make their way *off* government programs and onto an independent life.
- *Promote metropolitan cooperation.* The problems of America's cities cannot be solved in isolation from the resources and opportunities of their metropolitan regions. Historically, central cities represented the heart of urban areas; today, the evidence indicates that America's metropolises cannot reach their full potential without healthy cities at their core. That is why mayors and county officials need to work in partnership to seek regional solutions.

*“Cities and counties are neighbors and they will rise and fall together. Ignoring each other is no longer an option – economically and morally. Working together, they can build on each other’s strengths and, in the end, create a dynamic connection that is more powerful and prosperous than the sum of its parts.”*

-- Larry Naake, Executive Director, National Association of County Officials

The essence and innovation of the President’s empowerment philosophy and program is that unlike in the 1960s, when “urban policy” meant the same policy for every community, Washington now recognizes that there are hundreds of different urban agendas for all of the communities with which we partner.

Instead of a federal mandate we offer a federal menu, a range of options for creating stronger, safer, saner communities: more affordable housing, increased community development, more homeownership opportunities for working class families, and better schools with higher standards. One community needs police and parks, another housing and homeless assistance.

### **ADMINISTRATION INITIATIVES**

*“Thanks to the ingenuity and energy of our nation’s local leaders and the vision of the Clinton Administration, cities and counties are making a comeback. But there are two sides to this story: the other side of the story is the flight of the middle class, the loss of jobs, the concentrated poverty – the comeback is fragile. To solidify our gains – to keep the cities and counties coming back instead of sliding back – we need a bold and empowering urban agenda – now.”*

-- Tom Cochran, Executive Director, U.S. Conference of Mayors

This administration seeks partnership with communities through an urban agenda for the future, an agenda that will deepen and institutionalize the innovative, bottom-up, mainstream empowerment approach developed over the past four years.

This study indicated a need for policy efforts directed at a three-fold challenge:

- With the success of welfare reform hanging in the balance, what can be done to ensure that there are enough jobs for people coming off welfare -- and that they are prepared to succeed at work -- especially with respect to efforts to make cities more attractive to the private sector?

- How can we retain -- and begin to bring back -- middle-class families to America's cities?
- What can lessen the impact of today's poverty concentrations -- creating more hope and opportunity for future generations?

The administration has a seven point agenda:

**(1) Making the City Home: An Urban Homestead Initiative for the Year 2000**

**(2) A Second Round of Empowerment Zones**

**(3) New Tools For the Welfare to Work Transition**

**(4) Making Urban Neighborhoods Safe and Crime-Free**

**(5) Cleaning Up The Urban Environment**

**(6) Creating Educational Opportunity for All**

**(7) Ensuring Better - and More Affordable -- Housing for The Future**

**(1) Making the City Home: An Urban Homestead Initiative for the Year 2000**

Homeownership, as many mayors would attest, is often the most effective antidote to the many problems that ail a city. Two years ago, President Clinton set a goal of reaching an all-time high level of homeownership in America by the year 2000, requiring a total of 8 million additional households. Significant progress has been made to date: as of the end of the first quarter of 1997, more than 2.5 million new homeowners have been added. The homeownership rate has increased from 64.2 percent at the end of 1994 to 65.4 percent today. The expansion of homeownership over the last three years is the largest expansion in 30 years. Since the middle of 1995, the homeownership rate has been 65 percent or higher – a level not reached since 1981.

Despite these efforts, there remains a large gap between the homeownership rate in central cities and in their surrounding suburbs. While 72.1 percent of suburban families own their own homes, only 49.8 percent of families in cities are homeowners -- and over the past few decades, hundreds of thousands of middle-class families have fled the cities. In many ways, this is one of the most significant urban challenges, for there is great urgency in finding ways to halt -- and hopefully reverse -- the exodus of the middle class from the cities.

To reverse this trend, HUD will undertake an "Urban Homesteading Initiative" to accomplish this goal:

#### (A) Lowering Homeownership Costs for City Homebuyers

On June 12 of this year, President Clinton announced that once again HUD will reduce the mortgage insurance premium for first-time homebuyers obtaining homebuyer counseling. The up-front premium would be reduced by 12.5 percent -- from 2 percent to 1.75 percent of the mortgage amount. HUD expects 45,000 homebuyers a year to benefit from the reduction which makes homeownership more affordable.

The reduction in premiums is the third such reduction since the President took office in 1993. The three reductions, along with savings passed on to homebuyers because of increased efficiency in the FHA, will save homebuyers \$1,200 in closing costs on the average FHA mortgage of \$85,000.

To stimulate further activity and reduce disparities between suburban and central city homeownership rates, the President will be announcing an additional reduction of 25 basis points targeted at middle-class and lower-income first-time homebuyers in central cities who receive homebuyer counseling.

Starting in the 1950s, federal policies, including FHA, contributed to the exodus from the cities and the growth of the suburbs. This initiative is an effort to reverse the trend, creating a federal incentive for central city homeownership to help rebuild our cities.

#### (B) Safe Communities: "The Officer Next Door" Initiative

To make central cities safer, HUD proposes to use its programs to further the goal of community policing, by providing incentives for police officers to live in the communities in which they work. Under the Officer Next Door initiative, the Federal Housing Administration will offer police officers a 50 percent discount on the purchase of HUD-owned foreclosed properties in designated revitalization areas.

HUD will also be encouraging its local public housing authorities to create special preferences which allow police officers to reside in public housing developments.

#### (C) One America: Cracking Down on Housing Discrimination

To further the President's recently announced initiative on race, HUD proposes to double -- in the next four years -- the number of housing discrimination cases referred to the Department of Justice for prosecution. This step is vital to ensuring One America -- for the freedom and dignity of choosing where you live is a choice every American should have.

#### (D) Homeownership Empowerment Vouchers

Approximately 1.4 million households receive Section 8 certificates and vouchers to help them rent apartments in the private market. Under the Section 8 program, the federal government makes up the difference between a family's rental housing costs and the amount a family can afford. However, there are many low-income families who are able to accept the responsibilities of homeownership but cannot do so because they are



caught in a spiral of renting. The current Section 8 rental housing program cannot assist these households.

The administration now proposes to allow hard-working families to use Section 8 assistance as Empowerment Vouchers to become first-time homebuyers. The use of Empowerment Vouchers is consistent with the administration's goal to promote family self-sufficiency, encourage the formation of household wealth, and foster healthy communities. The administration's public housing reform bill includes provisions that would enable working families to purchase their own homes by using Section 8 subsidies to support the debt service on the mortgage. [S. 784 – referred to the Committee on May 22, 1997 and H.R. 1447 – referred to Subcommittee on May 16, 1997.] Under the administration's proposal, a family must have income from employment and must make a contribution toward their own downpayment.

This initiative can also have a significant benefit for minorities as 56 percent of Section 8 voucher recipients are minority, with the figure far higher in some cities (e.g., Dallas, 95 percent; Phoenix, 76 percent; and New York, 66 percent).

Because the underlying mortgages to be used with Empowerment Vouchers will be originated by private mortgage lenders, it is important to get the participation of the secondary markets to purchase the loans from the lenders and sell them to investors. This allows a lender to continue making mortgages.

To help launch this important homeownership initiative, Freddie Mac has pledged that once the legislation passes, it will participate in a demonstration program to purchase up to 2,000 mortgages originated by private lenders using the Section 8 Homeownership/Empowerment vouchers. Under the terms of the agreement between Freddie Mac and HUD, Freddie Mac would originate mortgages requiring 3 percent down payments in order that low and very-low income families can become homeowners. The down payment would come from the family's own savings as well as from gifts, loans, or grants. The family will contribute a reasonable amount of its income toward the monthly payments. The balance of the mortgage payment will be provided through the Empowerment Vouchers.

#### (E) Homeownership Zones

Another HUD program that targets homeownership expansion in inner cities is the Homeownership Zone initiative. HUD will provide \$10 million in FY 1997 and requests \$50 million in FY 1998 for Homeownership Zones. HUD recently made Homeownership Zone grants in Baltimore, Buffalo, Philadelphia, Cleveland, Louisville and Sacramento.

This program enables cities to undertake large-scale, single family developments in inner city neighborhoods. Such developments can retain and attract stable, middle-income families into the inner cities. In addition to increasing the supply of safe and decent housing in urban areas, the program will create new jobs in the home building industry and stimulate new investment in revitalized communities.

#### (F) Ginnie Mae Targeted Urban Lending Initiative

Ginnie Mae helps expand homeownership opportunities for all Americans by ensuring that mortgage funds are available throughout the country. Ginnie Mae links the capital and Federal housing markets by facilitating secondary market activities for federally insured or guaranteed mortgages. To date, Ginnie Mae has helped 19 million American families purchase homes.

Ginnie Mae is spearheading a new Federal initiative to stimulate at least \$5 billion in annual mortgage loans to help about 75,000 families buy homes in America's inner cities each year. With the Targeted Urban Ownership Initiative, Ginnie Mae will cut the guarantee fees it charges to lenders by up to 50 percent when the lenders make home mortgage loans to central city home buyers in one of 72 cities designated as Empowerment Zones or Enterprise Communities across the nation.

#### **(2) A Second Round of Empowerment Zones**

In 1994, more than 500 urban and rural communities applied to be designated as one of nine empowerment zones. Just two years since their designation, these zones have begun to generate billions of dollars in private investment, beginning to revive inner city neighborhoods once given up for dead, creating jobs and helping families move from welfare to work.

Empowerment Zones embody the core principles of the President's Community Empowerment agenda. The EZ/EC program combines federal tax incentives with direct funding for physical improvements and social services. It requires unprecedented levels of private sector involvement and investment. It brings all stakeholders in a community -- residents, nonprofits, business and government -- to the table to develop a locally fashioned and locally controlled, comprehensive revitalization strategy. It makes the private sector the driver of economic growth, with the government acting as a partner.

Building on this success and the vast untapped potential in the hundreds of communities which were not designated, the administration proposes to select an additional 15 urban empowerment zones and 50 additional urban enterprise communities and an additional five rural empowerment zones and 30 additional rural enterprise communities. These communities will receive a combination of tax incentives and direct grants totaling some \$2 billion to stimulate economic opportunity and revitalization in distressed neighborhoods across the country.

The President has also proposed a new, 25 percent tax credit for equity investments in CDFIs. This \$100 million tax incentive is expected to leverage \$400 million in private sector investment in community development.

#### **(3) New Tools for the Welfare to Work Transition**

There is no greater urban policy challenge than making the revolution in welfare policy work in central cities. Welfare reform gives States and individuals unprecedented opportunities to build a new welfare system that rewards work, invests in people, and demands responsibility from recipients.

A cornerstone of the welfare reform jobs challenge was laid during the first term of the Clinton Administration by enactment of two provisions to "make work pay." These achievements included the expansion of the Earned Income Tax Credit, affecting 18 million working families, and the increase in the minimum wage. The expanded Earned Income Tax Credit effectively raises the wage rate for a full-time worker who works throughout the year with two or more children by nearly \$2.00 per hour. A full-time worker with two children should not have to raise his or her family in poverty, and the expansion of the EITC and the increase in the minimum wage to \$5.15 brings us closer to that goal.

The President fought to include new tools in the Balanced Budget agreement to help cities, states and welfare recipients make the transition from welfare to work. Among those tools are:

- A \$3 billion Welfare to Work Jobs Challenge Fund: This fund would provide funds directly to both cities and states to provide additional resources to help long-term, hard-to-serve welfare recipients find and keep jobs.

These resources are particularly critical for cities. They represent a new allocation of resources directly to local jurisdictions, who will have resources to leverage jobs and services for their residents. Funds will be used for wage subsidies to private and public employers, on-the-job training, public and private job placement contractors, transportation subsidies, job retention services and other effective job creation and placement strategies.

- A New Welfare-to-Work Tax Credit: The President signed into law a new Work Opportunity Tax Credit (WOTC) on August 20, 1996, which expands eligible businesses to include those who hire young adults living in Empowerment Zones and Enterprise Communities. Building on the WOTC, the President has proposed a new welfare-to-work tax credit to create new job opportunities for long-term welfare recipients. This proposal would permit employers to claim a 50 percent credit on the first \$10,000 of wages for long-term welfare recipients, claim this credit for up to two years, and treat employer-provided education, training, health care, and dependent care as wages. The current WOTC would also be expanded to cover adults age 18-50 who are no longer eligible for food stamps. These tax incentives would supplement the President's proposed new, \$3 billion welfare-to-work jobs initiative.
- Incremental Rental Assistance Linked to Welfare Reform: HUD housing programs can also help link welfare recipients to jobs. Often, there is a mismatch between where welfare recipients live and the location of entry level jobs for which they have the appropriate education and skills. Moreover, stable and affordable housing can mean the difference between steady employment and welfare.

HUD proposes to use housing assistance programs to leverage jobs for welfare recipients. HUD's FY 1998 budget proposes 50,000 units of Section 8 rental assistance linked to the President's Welfare-to-Work Jobs Challenge. Jurisdictions which receive Welfare-to-Work Challenge grants and develop coordinated strategies between their public housing authority and the state or local welfare agency for the use of incremental rental assistance will compete for this funding.

- **Transportation Services:** One of the biggest barriers facing those making the move from welfare rolls to payrolls -- particularly for inner-city welfare recipients -- is convenient access to jobs. Two-thirds of new entry level jobs are in the suburbs, but three of four welfare recipients live in central cities or rural areas. Access to these suburban jobs is limited: only one in 20 welfare recipients owns a car and mass transit does not provide adequate or timely connections for those living in the city and traveling out to suburban jobs. The public transit system currently does not well serve those with non-traditional work hours or parents who require day care in order to work.

In 1996, HUD initiated a five-city Bridges to Work demonstration to connect inner-city, job-ready residents with suburban job opportunities. The initiative brings together regional service providers to provide transportation, job placement, and supportive services to residents of targeted inner-city neighborhoods. HUD proposes an additional \$10 million in FY 1998 to expand the Bridges to Work program.

Building on the Bridges to Work model, the Department of Transportation proposes to provide \$100 million per year for six years to fund innovative transportation programs to transport welfare recipients to jobs. Grants would be available to states, local governments, and private and non-profit organizations to plan and implement new transportation services linking welfare recipients to jobs.

- **Re-engaging the Faith Community:** HUD is expanding its relationship with the faith community, working with numerous faith-based organizations on a myriad of initiatives, ranging from housing to community economic development. Specifics include:
  - **National Church Building Initiative:** A task force spearheaded by HUD, the National Council of Churches, and the Congress of National Black Churches. Through this initiative, HUD is providing financial as well as technical assistance to churches that were devastated by arson fires. HUD financial contributions total \$10 million in guaranteed loans.
  - Throughout the U.S., HUD is working with individual churches and organizations, providing them with much-needed information and assistance to help them access the full range of program opportunities through HUD. This

has led to a significant increase in the number of churches and religious organizations that are actively involved in the rebuilding of their communities.

- Responding to numerous requests from faith communities, HUD conducts outreach workshops which provide hands-on assistance to all denominations, engaging them as partners in the community building process.

#### **(4) Making Urban Neighborhoods Safe and Crime-Free**

*“Our communities will never be safe until we are fighting crime as a team. Residents and police must work together – the residents are the eyes and ears and the police are the security.”*

-- Emmanuel Cleaver II, Mayor of Kansas City, MO

While violent crime rates have plummeted in many large cities, too many families still cannot walk their city's streets knowing they will be safe. Businesses and homeowners cannot be expected to risk their hard-earned money in neighborhoods afflicted by drugs and violence.

The cornerstone of the Clinton Administration's efforts to fight crime, particularly violent crime, is the continuing effort to put 100,000 more community policing officers on the streets. By the end of FY 1997, grants will have been announced to fund the hiring or redeployment of more than 64,000 additional officers. The FY 1998 budget proposes \$1.4 billion to put nearly 17,000 more officers on the streets.

The focus on community policing is beginning to reap dividends in reducing crime in the most intractable urban settings. For example, in Boston, no juvenile under the age of 16 has died as a result of gunfire since July 1995, and the homicide rate for those under 24 has dropped by as much as 71 percent since 1990.

These reductions can be attributed to innovative community policing techniques. In Boston, the police identify "hot spots" to proactively target their crime prevention efforts. A Youth Violence Strike Force -- consisting of a unique community-wide law enforcement collaborative -- zeroes in on battling gang violence and thus reduces youth homicide. The Strike Force established a community-wide collaboration of law enforcement officials to prosecute a major gang and developed an innovative partnership with the probation department to increase accountability.

The administration's FY 1998 budget includes other crime fighting initiatives:

- Juveniles: The administration proposes a \$55 million increase in FY 1998 to support more local community prevention programs, such as mentoring, truancy prevention, and gang intervention. To prevent young people from becoming

involved in the juvenile justice system, the budget expands funding for programs that provide supervised afternoon and evening activities for youth. These programs include \$63 million of community schools, supervision and youth services.

- **Gangs:** The President has worked hard to get guns off the streets and out of the hands of children, to crack down on violent teen gangs and to teach children that drugs are wrong, illegal, and dangerous. As gangs become an increasingly powerful and deadly force, the administration is pursuing a coordinated national strategy to combat them. For example, the budget proposes substantial budget increases to hire more prosecutors, to establish a new juvenile court initiative and for a local youth crime intervention initiative.
- **Putting Violent Criminals in Jail:** The administration seeks to ensure that convicted violent offenders serve at least 85 percent of their sentences behind bars. To reach this goal, the administration proposes \$710 million in State grants to build new prisons and jail cells under two programs: the Violent Offender Incarceration and Truth in Sentencing programs. Nationwide, the prison population is growing by over 1,700 inmates per week, and will likely grow faster as tough sentencing laws and practices that these programs require are implemented.
- **Combating Drug Abuse:** Drug abuse and drug-related crime cost our society an estimated \$67 billion a year and destroy the futures of millions of children. Illicit drug trafficking breeds crime, violence, and corruption across the country. The effects of drug use and drug-related crime are felt acutely by all Americans, transcending economic, geographic, and other boundaries.

The administration proposes a \$1.8 billion, coordinated, multi-agency approach to combating all types of substance abuse among youth -- including tobacco and alcohol. This comprehensive approach, consistent with the President's National Drug Control Strategy, comes in response to surveys showing sharp increases in drug abuse among adolescents.

Specific anti-drug initiatives include:

- **National Media Awareness Campaign:** The Office of National Drug Control Policy is developing a national media campaign to include public service announcements targeted at youth and their parents on the consequences of drug, alcohol and tobacco use.
- **Safe and Drug Free Schools and Communities Program:** This is the largest federal program to inoculate children against drug abuse and to ensure that schools are safe and disciplined learning environments. The program covers 97 percent of all school districts nationwide through educational activities,

teacher training, and other activities. The President proposes to spend \$620 million for this program in FY 1998, a 12 percent increase over 1997.

- **Public and Assisted Housing:** The President believes that public housing is a privilege, not a right, and residents who commit crime and peddle drugs should be immediately evicted. This is the premise underlying HUD's "One Strike and You're Out" policy. HUD's budget provides \$290 million to support anti-drug and anti-crime initiatives that provide for enhanced enforcement and prevention programs.
- HUD proposes to double funding from \$10 million to \$20 million for Operation Safe Home, a unique crime-fighting campaign spearheaded by HUD's Office of the Inspector General. The collaboration includes the FBI, the Drug Enforcement Administration, the Bureau of Alcohol, Tobacco and Firearms, U.S. Attorneys offices and other federal, state and local law enforcement agencies. Operation Safe Home focuses on three major types of wrongdoing that undermine HUD programs -- violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing. Operation Safe Home has to date resulted in more than 12,000 arrests and the seizure of more than 600 weapons and nearly \$2.75 million in cash.
- To address increasing crime concerns in HUD-insured and assisted multifamily housing properties, two years ago the Department established the Safe Neighborhood Action Plan initiative (SNAP). SNAP is a joint initiative between HUD, the U.S. Conference of Mayors and the National Assisted Housing Management Association. The SNAP concept focuses on pooling efforts and resources to combat crime and drug-related activities in and around selected communities. SNAP partners include residents; federal, state, and local governments; and owners and managers of HUD-assisted properties. HUD's FY 1998 Budget reserves \$60 million to help support implementation of Safe Neighborhood Action Plans for eligible projects.

## **(5) Cleaning Up The Urban Environment**

Brownfields are former industrial and commercial properties that may contain low to moderate levels of contamination. Because these sites are considered to be only moderately contaminated, they do not appear on EPA's Superfund National Priorities List. The scope of the problem is significant. The General Accounting Office estimates that there are as many as 450,000 brownfields, a majority of which are in urban settings. Old manufacturing or other industrial sites leave some level of contamination after they have ceased to be productive assets. In many cases, these sites must be cleaned up before they can be redeveloped for commercial uses.

The Clinton Administration has launched a landmark effort to clean up and redevelop Brownfields sites. It has established a Brownfields National Partnership among 15 federal agencies to join together in a collaborative effort to turn contaminated Brownfields into greenfields of urban opportunity. In total, the Brownfields action agenda

has marshaled funds to clean up and redevelop 5,000 properties, leveraging between \$5 billion and \$28 billion in private investment and creating and supporting 196,000 jobs.

The key components of the Brownfields Action Agenda are:

- \$125 million EPA funding for assessment, clean-up, and job training.
- \$100 million in HUD economic development funding and \$400 million in loan guarantees over four years. In each of the next four years, HUD proposes to fund \$25 million in Economic Development Initiative (EDI) grants to redevelop contaminated brownfields after they are cleaned up. In general, such grants leverage four dollars in HUD Section 108 loan guarantees for each HUD grant dollar.
- Nearly \$2 billion in tax incentives over five years proposed by the Treasury Department. Under proposed legislation, businesses would be allowed to "expense" brownfields clean-up costs, rather than capitalizing such costs over time. These tax provisions would provide direct financial incentives to private sector developers and investors to participate in clean-up and revitalization activity.

In addition, HUD Secretary Andrew Cuomo is joining with EPA Administrator Browner and the U.S. Conference of Mayors on a task force, which will start meeting this summer, to ensure regional cooperation on brownfield issues.

To further assist cities and counties in dealing with environmental and related issues, HUD is supporting the Joint Center for Sustainable Communities, a collaboration between the United States Conference of Mayors and the National Association of Counties. The Center's primary mission is to provide a forum for city and county elected officials to work together regionally to develop long-term policies and programs that will lead to job growth, environmental stewardship, and social equity – the three components of sustainable communities. HUD has made available \$100,000 in research and direct funds to support the Center's work in several areas, including the redevelopment of brownfields, the design of new collaborative growth management strategies to preserve farmland and deter the development of greenfields, and the development of affordable housing in sustainable communities.



## **(6) Creating Educational Opportunity for All**

*“Education and safety are the twin pillars of our cities’ success. With them, we will not fail. Without them, we cannot succeed. In Los Angeles, as in other cities, we are constantly striving to meet these challenges.”*

-- Richard J. Riordan, Mayor of Los Angeles, CA

Today's most successful workers are those with the skills and firm educational footing necessary to compete in the dynamic modern economy. Nowhere is progress more needed than in inner cities -- especially to help future generations of inner-city children succeed in the new economy.

The President's goals are to help families, communities and States ensure that every child is prepared to make the best use of education, that the education system enables every child to learn to his or her full potential, and that those who need resources to help pay for a college education can get them.

The Budget Agreement includes the largest federal investment in education in 30 years and the largest single increase in college aid since the GI Bill in 1945. The budget agreement provides for investments in students in the earliest years of their lives, promotes basic reading skills in elementary school years, helps all students become technologically literate, and makes college more affordable for millions of additional students.

- **Head Start:** Over the past four years, the President has secured a 43 percent increase in funds for Head Start. The budget agreement provides \$4.3 billion for Head Start, a \$324 million increase over 1997. A child's learning begins long before he or she goes to school. That's why the President's budget expands Head Start to benefit one million children by 2002.

Beyond expanding the Head Start program, the administration is challenging parents to get involved early in their children's learning. Parents are their children's first teachers, and every home should be a place of learning.

- **America Reads:** The President has launched the America Reads Challenge, a nationwide effort to mobilize a citizen army of a million volunteer tutors, to ensure that all children can read independently and well by the end of the third grade.

While America's 4th graders read on average as well as ever, more than 40 percent cannot read as well as they must to succeed later in school and in the workforce. Research shows that students unable to read well by the end of the 3rd grade are more likely to become school dropouts and truants, and have fewer good options for jobs. The Budget Agreement provides funding for child literacy initiatives consistent with the goals and concepts of the President's America Reads program.

- **Challenging Standards:** Setting challenging standards, with voluntary national tests in 4th-grade reading and 8th-grade math, will make sure our children master the basics. Of late, our nation's children have shown significant educational improvement. The recent Third International Mathematics and Science Study for 4<sup>th</sup> Graders found that U.S. students are above average in math and science in nine of ten content areas – far better than our children tested back in 1991.

However, we must do better still. Every 4th grader should be able to read; every 8th grader should know basic math and algebra. To help make sure they do, the President is pledging the development of voluntary national tests in 4th-grade reading and 8th-grade math, and challenging every state and community to use these to test every student in these critical areas beginning in 1999. These tests will help parents know if their children are mastering critical basic skills early enough to succeed in school and in the workforce. They will also show how well students are meeting challenging standards and how well they compare with their peers around the country and the world.

Every state and school should also set guidelines for what students should know in all core subjects. We must make sure a high school diploma means something.

- **Make Technology Available:** The President has proposed funding to help ensure that computers are in every classroom and that every classroom is connected to the Internet by the year 2000. Our schools must now prepare for a transition as dramatic as the move from an agrarian to an industrial economy 100 years ago. We must connect every classroom and library to the Internet by the year 2000, so that all children have access to the best sources of information in the world. CEOs of some of America's most innovative technology and communications firms have already responded to the President's challenge to work with schools to get computers into the classroom, link schools to the Internet, develop effective educational software, and help train our teachers to be technologically literate.

In addition to having access to the information superhighway, children must be taught by talented and dedicated teachers. The administration is committed to making sure there are talented and dedicated teachers in every classroom. We are challenging our most promising young people to consider teaching as a career, and encouraging a national commitment to set the highest standards for entering the teaching profession and to provide the highest quality preparation and training. We should reward good teachers, and quickly and fairly remove those few who don't measure up. The President's education budget will make it possible for 100,000 master teachers to achieve national certification from the National Board for Professional Teaching Standards over the next ten years.

- **Making College Affordable:** The President is opening the doors of college to all who work hard and make the grade. To prepare ourselves for the 21st century, all Americans must have access to college. The Budget Agreement includes the largest increase in two decades in the Pell Grant program, which provides grants to disadvantaged students. Maximum grant amounts will reach \$3,000 -- an increase

of \$300 -- and new funding will allow an additional 348,000 students to receive grants.

The Budget Agreement also calls for about \$35 billion over 5 years to help make college affordable for all American families. The President has proposed a \$10,000 tuition tax deduction and the President's HOPE Scholarship initiative. This initiative would provide a \$1,500 tax credit for tuition paid for the first two years of college. It would be enough to pay for a typical community college education or provide a solid down payment at four-year colleges and universities.

- Other Education Initiatives: In addition to focusing on these important areas, the administration also calls for resources to expand school choice and accountability in public education, such as supporting charter schools; modernizing school buildings and helping support school construction; helping adults improve their education and skills by transforming the tangle of federal training programs into a simple skill grant; and making sure our schools are safe, disciplined and drug free.

Students cannot learn in schools that are not safe and orderly and do not promote positive values. We must find effective ways to give children the safe and disciplined conditions they need to learn, and continue to support communities that introduce school uniforms and character education, impose curfews, enforce truancy laws, remove disruptive students from the classroom, and have zero tolerance for guns and drugs. The administration proposes to keep schools open later as safe havens from gangs and drugs, expanding educational opportunities for young people in the afternoons, weekends, and summers, and providing peace of mind for working parents.

## **(7) Ensuring Better -- and More Affordable -- Housing for The Future**

This is a two-fold challenge, for a safe, decent home is the essential base from which families can ultimately attain independence: (A) reinventing the way that public housing works -- so that it is no longer a dead end but, instead, a platform to self-sufficiency; and (B) protecting the Nation's precious supply of affordable housing stock and the federal assistance that houses millions of families, seniors and children.

### **(A) Reinventing Public Housing: Passing a Landmark Public Housing Bill**

At the heart of many distressed urban neighborhoods, one finds old public housing developments, plagued with deteriorating conditions and beset by crime and gang activity. These old developments are too often high-rise buildings with caged hallways.

We are living with decades of mistakes in public housing. In too many cases, the original site plans and architecture of the developments were flawed. Other times, buildings simply have worn out their useful lives. In some locations, callous management

contributed to the deterioration of buildings. In other cases, neighborhoods changed from healthy residential settings to isolated pockets of poverty and despair.

This is not to characterize all public housing as a failure. To the contrary, the majority of the 1.4 million units of public housing works successfully. It is well-managed and provides decent housing to poor families who desperately need affordable housing at an affordable price. Public housing units represent one-third of all the housing that is available nationwide to families with minimum-wage incomes.

In the first term of the Clinton Administration, the administration initiated a comprehensive effort to fundamentally transform public housing. This effort to transform public housing had four major components: 1) Tearing down and replacing the 100,000 worst public housing units, 2) Aggressively intervening to improve troubled public housing authorities, 3) Establishing positive incentives to reward working families and encourage families to make the transition from welfare to self-sufficiency, and 4) Cracking down on crime, gangs and drugs.

The HOPE VI program has provided \$2 billion in funding for the demolition and revitalization of 68 of the worst public housing developments. HUD proposes an additional \$524 million for these activities in FY 1998.

But those reforms cannot advance the full transformation without further legislative action. HUD has introduced the Public Housing Management Reform Act of 1997 to both cement and deepen the transformation of public housing. The legislation would also match the public housing program structure to the likely resources HUD will have available.

- Responsible deregulation and program streamlining: HUD proposes massive changes to the public housing system of old where regulations and red tape governed even the most basic operations.
- Managing for performance with effective oversight and enforcement: Responsible enforcement must accompany responsible deregulation. Such efforts require early identification of PHA management problems, timely preventive action and sure and certain consequences for persistently troubled performers.

In some communities, public housing has become an isolated and permanent residence with few incentives for residents to work. HUD's legislation proposes new admissions policies which balance the need to achieve a greater mix of incomes in public housing with policies that offer incentives for existing poor tenants to raise their own incomes. It allows housing authorities flexibility to design their rent systems to be consistent with local welfare programs and encourage work.

#### (B) Renewing Millions of Section 8 Contracts

HUD faces what some describe as the greatest challenge it has faced since its inception. Rental assistance contracts on 1.8 million units of housing -- providing shelter

for 4.4 million people -- are scheduled to expire. This crisis grows in future years: by FY 2002, contracts for 2.7 million units -- or 6.4 million people -- will be expiring.

Section 8 provides a subsidy to tenants to afford private rental housing. Under Section 8, tenants pay approximately 30 percent of their income and the federal government makes up the difference. For families receiving Section 8 assistance, it is more than a contract or a subsidy; it is often the foundation from which they can build lifelong self-sufficiency. Renewing these contracts, then, becomes a fulfillment of a social contract between government and a vulnerable family.

What would happen if these 1.8 million expiring Section 8 contracts are not renewed in 1998? Some 4.4 million people could risk losing their homes -- either through evictions or unbearably sharp rent increases. Without reform, that number could grow to 6.4 million Americans at risk by 2002. Over 90 percent of these Americans are elderly persons, persons with disabilities, or families with children.

American communities should not have to bear the high social costs, and should not have to face the potential social chaos, of an unprecedented explosion of homelessness that would surely arise if these contracts are not renewed.

A plan for renewing these contracts must also protect America's communities. The answer cannot be to divert funding away from other vital community programs. A shredding of the social and economic fabric of our communities would surely be the result if we choose to fund the expiring Section 8 contracts by making 35 percent across-the-board cuts in core HUD programs like CDBG, public housing operating support, homeless assistance and many others. This kind of "cut-and-shift" approach -- robbing Peter to pay Paul -- would be short-sighted and self-defeating. While such an approach would avert the Section 8 crisis, it would simultaneously trigger other community crises in homelessness and affordable housing -- as states, counties and cities small and large would face billions in cuts in 1998 alone.

Renewing these contracts requires sharp increases in appropriations for this purpose. In FY 1998, HUD proposes \$9.2 billion for contract renewals -- a \$5.6 billion increase over FY 1997. By 2002, funding necessary for contract renewals grows to \$18 billion. The President fought hard to include adequate funding for Section 8 renewals in the balanced budget agreement. The administration will work to ensure that the funding for renewals is provided when budget decisions are completed.

A budget commitment of this size must be accompanied by a commitment to reform subsidy programs and reduce their costs to American taxpayers. The administration's proposal to reform Section 8 project-based subsidies, called the "Housing 2020: Multifamily Management Reform Act," is a crucial step to cutting long-term subsidy costs while protecting tenants and communities.

## **IMPLEMENTING THE AGENDA**

Two of the key building blocks for implementing the administration's second term urban agenda are the Community Empowerment Board and a renewed and reinvented Department of Housing and Urban Development -- a HUD that has been dramatically transformed for the 1990s and beyond.

The President's empowerment agenda -- as noted earlier -- is distinctly different from past federal attempts at urban renewal. The Vice President has honed that philosophy and practice in partnership with communities for the past four years. Much has been learned from the many wise and bold mayors. Now it is time to institutionalize and deepen this new empowerment approach.

### **Community Empowerment Board**

Recognizing the need for high-level commitment to the empowerment approach, President Clinton in September 1993 named Vice President Gore to chair the Community Empowerment Board (CEB). The Board, which includes the heads of every major domestic Federal Cabinet agency, focuses on coordinating interagency community policy for the entire federal government. As part of reinvention efforts, Federal agency Board members have granted more than 250 requests for programmatic and regulatory flexibility needed to implement economic development activities in EZs and ECs. They facilitate interagency cooperation, and engage members and agencies to ensure follow-through on commitments.

### **A New HUD for a New Century**

*“For HUD to fulfill its mission, it must have credibility – with Congress, with local governments and with the customer. They must all believe that HUD has the competence and capacity to perform its functions. It's time HUD put its own house in order.”*

-- Secretary Andrew Cuomo

In 1961, President Kennedy, in a special message to Congress, called for the creation of a cabinet level agency to strengthen urban communities. “Our communities are what we make them. We as a nation have before us the opportunity -- and the responsibility -- to remold our cities...”

In 1965, fulfilling Kennedy's vision, President Johnson actually proposed the Department of Housing and Urban Development, citing its mission thus: “This new

department will provide a focal point for thought and innovation and imagination about the problems of our cities.”

But the agency whose direct mandate was to act as an advocate for urban America has not kept pace with the times. HUD is now just over thirty years old -- and it is time to prepare HUD for the next thirty. While HUD’s traditional goals must remain the same -- fighting for fair housing, increasing the supply of affordable housing and opportunities for home ownership, reducing homelessness, promoting jobs and economic development -- its mission and organization must be updated and re-focused.

If HUD is going to be a significant, value-added player, helping America’s communities move from an industrial to an information economy, with welfare reform hanging in the balance, the agency must strive to empower people, giving them the tools they need to succeed. HUD must be an ally to communities, not a bureaucratic adversary; a creator of opportunities, not obstacles.

At the same time, in a balanced budget environment -- and with the storm clouds of mismanagement still hovering over the agency -- HUD must refocus its energy, ingenuity, and resources on eliminating waste, fraud, and abuse in all our programs.

Despite significant improvement in the last few years, HUD remains a symbol of inept government. The plan HUD will soon be putting forward puts HUD’s house in order and creates a new HUD for the new century. It says that compassion without competence has failed HUD -- and America -- and that HUD must change.

HUD has developed its plan over the last six months, working with change agents throughout the Department and with input from outside experts, including Ernst & Young, David Osborne (co-author of Reinventing Government) and James Champy (co-author of Reengineering the Corporation).

The plan says that to get HUD’s house in order the agency must focus on two core missions:

- Mission #1: Empower people and communities to help themselves.
- Mission #2: Restore the public trust by demonstrating competence.

The empowerment mission is a dramatic shift for the Department. Rather than issuing directives and over-regulating communities, HUD will provide them with the tools to implement their own, home-grown revitalization strategies. But to truly empower communities, HUD must demonstrate that it is a competent steward of public resources. It must focus on performance not process, weeding out any waste, fraud, and abuse while doing more with less. It must reinvent the way it does business.

Recognizing both the historic need and the recent forces that demand change, HUD undertook a comprehensive effort to redesign our mission, programs, and organization -- finding ways to better measure and reward performance, match its mission

to its resources, modernize its technology, downsize the agency, consolidate many of its programs as well as routine processing of paperwork, provide better client service in the field, and beef up monitoring and enforcement of HUD programs.

The President's first directive to incoming Secretary Cuomo was to remake HUD. In late June, the Secretary will provide the President with a sweeping management reform plan.

### **CONCLUSION**

*“This is a bold report that takes an honest look at the state of America’s cities. Its conclusion: while the leadership of our Nation’s mayors – combined with the administration’s economic empowerment agenda – has lifted the prospects of America’s cities, many still face real challenges. That is why this report echoes the President’s call for a strong second-term urban agenda that rejects the failed policies of the past and helps cities help themselves in a whole new way.”*

-- Secretary Andrew Cuomo

What is the state of America’s cities today?

Is it the 44,000 jobs added in San Antonio between 1993 and 1995? Or is it the 258,000 mostly middle-class residents who left Cleveland since 1970?

Is it the record 33 percent drop in violent crime in New York City over the past four years? Or is it the 50 percent explosion in poverty in central cities across America during the past two decades?

Is it the 50 percent drop in unemployment in Tulsa since 1993? Or is it the dropout rate in Los Angeles schools, which runs 96 percent higher than the national average?

In a word, the answer is: both. The urban glass is both half-empty and half-full, depending on where you look. Thanks in large part to the one-two punch of the Clinton Administration’s economic plan and a targeted urban strategy, America’s cities are coming back. Unemployment is down. Crime is down dramatically. Downtowns are reinventing themselves. Paychecks are growing faster than in suburbs. Fiscal health has returned to many city halls. And confidence nationwide is riding high.

But at the same time, three very real national trends present serious challenges for our cities:

- First, over at least the past quarter century a significant disparity has emerged in job creation between the cities and the suburbs -- and the cities are losing out.



- Second, over the past few decades, America's poor have grown more socially and economically isolated and more physically concentrated.
- And third, the long-term migration of the middle class from cities to suburbs continues into the 1990s.

Added to these challenges are the very real difficulties of converting our urban areas from an industrial to an information economy, integrating an increasing number of immigrants, and moving one million of our fellow citizens from welfare to work -- all at a time when federal, state, and local budgets have been tight.

With this disparity, one thing remains clear: just as no one city works like the rest, no one solution will work for them all. If we are going to meet the need of America's 1,000 cities, one cookie-cutter solution will not do. We need 1,000 partnerships -- each tailored to a community's needs, each custom-made to empower local residents to meet their goals. That is the ambition of the Clinton Administration's second term urban agenda: to encourage innovation, to facilitate cooperation, and to help local communities - - and businesses, and churches, and residents, and nonprofit organizations -- fulfill their own visions of the future.

In each of these local/federal partnerships, we must marry local innovation to address the particular local circumstances with a recognition of the broader national challenges we face across all urban areas -- welfare reform, job creation, housing, and homeownership. This marriage of local innovation with federal support and coordination of policy that can help ensure that the story of America's cities over the next two decades is promising and hopeful.

The challenges facing America's communities are not limited to certain geographic areas. Challenges once associated with urban America now are evident coast to coast. And cities and suburbs -- especially older suburbs -- must tackle many of the same issues.

The same way that a broad national economic resurgence has had benefits for both cities and suburbs, so too can economic growth and social health in the cities bring greater strength to both their surrounding suburbs and to the entire national economy. The issue is not a zero sum game but a win-win for residents of cities, suburbs, and rural areas -- not choosing between cities or suburbs, regions or rural, but ensuring that the entire national economy is vibrant and growing, and that revitalization and economic opportunity reach those who have been too long in the shadows.

As much as America has changed since World War II, our cities -- and the suburbs that surround them -- remain home to almost 80 percent of the American people and contain more than 80 percent of America's jobs. We couldn't turn our backs on America's cities even if we wanted to. Their roads, ports, bridges, banks, businesses, colleges, and residents -- not to mention their museums -- are still the engine that drives our national economy.

What is the state of America's cities? Improving.

What is the challenge? To meet the needs of urban America in a way that empowers us all. We all need to be committed to strengthening the whole, not just our individual parts -- the cities and the suburbs, our neighborhoods and those further from our doorstep.

The success or failure we have in meeting these intertwined challenges will largely determine how all of us live in the twenty-first century.

## Endnotes

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- <sup>28</sup> The State of America's Cities, January 1997.
- <sup>29</sup> Survey of Current Business.
- <sup>30</sup> Bureau of Labor Statistics, Local Area Unemployment Statistics.
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- <sup>32</sup> U.S. Census (SSEL), Special Tabulation for 77 selected cities.
- <sup>33</sup> U.S. Census (SSEL), Special Tabulation for 77 selected cities.
- <sup>34</sup> U.S. Census of Population and Housing.
- <sup>35</sup> See note no. 6.
- <sup>36</sup> See note no. 6.
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