U.S. Department of Housing and Urban Development
Office of Policy Development and Research

the President's National Urban Policy Report

1984

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410

May 24, 1984

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

It is a pleasure to transmit to you the 1984 President's National Urban Policy Report. In my view, this Report indicates that our Administration policies are establishing the right direction for the nation's urban areas. Our cities and urban areas are, in general, reaping the benefits of the nation's economic turnaround, and States and cities are using their regained flexibility from deregulation and grant consolidation to serve their citizens better.

We are just beginning to evaluate the positive results of economic resurgence and revived Federalism for our cities, but the early results are encouraging. Much remains to be done. Some cities still have significant problems. However, with record employment levels in an America returning to work, and with an economic climate that allows our industrial and service economies to adapt more efficiently to market requirements, our cities are benefiting from the nation's economic expansion. All levels of government, Federal, State and local, are working in a revived spirit of cooperation.

The quality of urban life is also improving. Assistance to the needy is more effectively targeted. Crime rates have plummeted. In education, we have helped redirect the nation's attention. Parents, local authorities and States are working together to restore educational quality.

In summary, the outlook for our urban areas today is much better than it has been since the Urban Policy Reports were initiated. This is partly because of the economic recovery, partly because of the States' and localities' willingness to use their regained authority cooperatively and responsibly, and partly because the American people, with restored faith in themselves and their ability to handle our nation's difficulties, have turned to the tasks at hand. As is their custom, our people will accomplish what they set out to do. Our cities will continue to be the better for it.

~~Very~~ sincerely yours,

Samuel R. Pierce, Jr.

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Washington, D.C. 20402

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Executive Summary

The Reagan Administration's Urban Policy is a three-part strategy designed to build the foundation for a new era of prosperity and stability in our nation's cities. It includes:

1. Maintaining sustained noninflationary economic growth, recognizing that a healthy economy is our most powerful tool for revitalizing our cities and improving their fiscal positions.

2. Strengthening State and local governments by giving them increased authority and flexibility to manage their own resources and returning decisionmaking closer to the people.

3. Stimulating public and private cooperation to maintain and improve the social and physical conditions in our Nation's cities through:

- More effectively aiding the needy;
- Improving the quality of education;
- Addressing the housing needs of low- and middle-income people;
- Repairing the Nation's infrastructure;
- Reducing the incidence of crime.

There is increasing evidence that this strategy is sound and is working.

1. A sustained economic expansion is providing the basis for stable urban growth.

- Inflation has remained low at a 4.7 percent annual rate, and interest rates are far below their 1980-81 highs.
- The Index of Leading Economic Indicators has maintained a consistent upward course, rising in 16 of 18 months since November 1982.
- GNP is expected to rise at a five percent rate in 1984 and an over four percent rate in 1985.
- As of April 1984, employment had increased to a record 104.4 million.
- Production is approaching or exceeding previous highs in almost all types of manufacturing.
- States and localities moved from a budget deficit of $1.9 billion in 1982 to a budget surplus in 1983 (excluding social insurance funds) of $15 billion. The changed outlook prompted the *Nation's Cities Weekly*, the organ of the National League of Cities, to quip about one prominent example, "New York City's financial picture is all good news but still creates a problem—how to spend a budget surplus of at least $200 million."

● Indicating heightened economic development activity, Urban Development Action Grants (UDAG), one of the programs the Administration maintains to help distressed cities take advantage of economic opportunities, has in the first half of Fiscal 1984 already committed to generating as much private investment for as many cities as it did for each of the entire Fiscal Years 1979, 1980, and 1982.

Examples from specific cities indicate the types of economic progress being made:

- Jersey City, in the last three years, doubled the amount of office space that had existed in the city for the last 50 years, with resulting increases in real estate values of over 70 percent. The added revenues generated by the increased value of local real estate (which also resulted in an increase from 85 percent to 90 percent in tax collections) generated over $14 million in surplus revenues for the city in 1983. The surplus allowed Mayor Gerald McCann to lower municipal taxes $13 per thousand in 1984. Mayor McCann also traces the sharp drop in the crime rate in the city—8.8 percent in 1983—to the improved economic picture.
- Baltimore anticipates that in 1984 businesses will invest over half a billion dollars in commercial and retail development in the city, continuing the accelerated economic development activity of 1983 which increased the city's property tax base by 10.5 percent.
- Johnstown, Pennsylvania, one of the Nation's 10 highest unemployment cities since 1977, has markedly lowered its unemployment rate of 20.9 percent in 1980 to 14.7 percent in the first quarter of 1984. This improvement resulted from a strong public-private cooperative effort that created or enhanced 25 businesses, as well as a coordinated use of Federal development aid targeted to cities lagging the economic recovery.

2. States and localities are taking advantage of their increased authority and the new flexibility provided by the Administration's consolidation and deregulation initiatives to work cooperatively to meet local needs.

● By 1983, nearly all States had assumed the local share of costs for Medicaid and AFDC, and over 50 percent of local education costs.

● The increased level of intergovernmental cooperation is revealed in the success of State Enterprise Zones now enacted in 23 States as a result of the Administration's push for a national program. Enterprise Zones in over 200 cities are leading to the creation or retention of many businesses and jobs in our cities. Federal Enterprise Zone legislation remains a major priority of the Administration, to enhance the capacities of Enterprise Zones in the cities.

3. Cooperative actions are now being undertaken by all levels of government and the private sector to address the social and physical environments of cities.

● Assistance to the needy has increased and become more effectively targeted at Federal, State, and local levels. With increased State responsibility for Medicaid, the percentage of recipients with incomes below the poverty line grew from 53.3 percent in 1980 to 59.1 percent in 1982. Participation in the food stamp program jumped by almost 12 percent between 1980 and 1983, and the percentage of benefits in means-tested cash and noncash assistance going to reduce the extent of poverty rose by 10 percent.

● The President has directed national attention to the quality of education, generating reform across the country. The Administration has taken steps to increase parental authority and local discretion through deregulation and promotion of vouchers and tax credits.

● Recent surveys show that the Nation's infrastructure needs are now regarded as manageable, as a result of the substantially increased funding for highways and transit systems generated by the Administration's Surface Transportation Act of 1982 (a $6 billion increase from 1982 to 1984) and of noticeable shifts in State and local spending priorities aimed at addressing infrastructure needs.

● Housing starts averaged a 1.95 million annual rate in the first quarter of 1984 and the number of low-income families receiving assistance from HUD housing programs will grow from 3.3 million in 1981 to 4 million in 1985.

● Reported serious crime was down seven percent in 1983 after a three percent decline in 1982.

Chapter I

Overview

The Reagan Administration has ushered in an era of dramatic change in intergovernmental relations, reversing the trend of the past 50 years that had made cities overly dependent on the Federal Government. This new era seeks to restore the authority of State and local governments, to rebuild and enhance the relationship between States and their cities, and to encourage elected officials on both these levels of government to forge productive partnerships with the private sector.

President Reagan's strategy for revitalizing cities has aimed at creating, fostering, or, in some cases, accelerating these evolving relationships through a series of initiatives designed to encourage States and cities to set their own priorities and make the most of existing resources. Underlying these initiatives is the central recognition—raised to national consciousness by President Reagan and therefore affecting officials on all three levels of government—that excessive spending fuels inflation, ultimately hurting everyone, and that the Nation as a whole must manage wisely by balancing needs against resources and learning to share both resources and responsibilities.

Block grants, deregulation, more careful targeting of Federal funds, incentives for public-private partnerships—these policies have lifted much of the burden of Federal mandates and restrictions from State and local officials and endowed them with a new flexibility in managing their resources. As a result of these Reagan Administration initiatives, and of the growing recognition by State and local policymakers that financial resources are increasingly limited, cities, counties, and States have entered in the past three years into an ever-increasing number of creative partnerships and consolidations that have helped substantially to relieve pressures on urban budgets.

While examples abound (many of these are detailed in Chapter II of this report), a clear description of this trend was recently provided in testimony before the U.S. Advisory Commission on Intergovernmental Relations by the President of the North Carolina Association of County Commissioners and Chairman of the North Carolina Local Government Advocacy Council:

There was a time in North Carolina when the allocation of functions, responsibilities and powers between city and county governments was such that there was relatively little overlap. For example, not too long ago only cities were involved in fire protection, water and sewer services, solid waste collection and disposal, parks and recreation, planning, zoning and subdivision regulations and inspections. Today, all of these functions are authorized for counties as well as for cities and are being performed by most counties—sometimes independently and sometimes cooperatively with cities. These and other functions of cities and counties are also shared in some cases with the state.

* * * * * * *

We in North Carolina believe we are in a new public financing era in our state as well as in the entire nation—one in which responsibilities for financing essential government services will increasingly fall on state and local governmental shoulders, and one in which financial resources are increasingly limited. In order to be prepared for this new era, we are assessing our present alignment of responsibility in order to be able to make informed choices for the future.[1] (*Emphasis added.*)

What is happening in North Carolina is happening in many States in our Nation.

In effect, President Reagan has helped make citizens and officials on all levels of government aware of the need to understand their governmental systems and ask some basic questions: Who does what? Who pays for it? How well is it done? Who should do it, and who should pay for it? As a result, cities, States, and counties have joined together in the past three years to reexamine their relationships and review the need to change, divide, or combine responsibilities for administration and finance. Local governments have joined with neighborhood groups or private firms, counties with their cities, cities with their surrounding suburbs or other cities, and States with their cities or other States to pool resources and provide services and to assume functions that were once solely the responsibility of municipal governments.

Another result of the national awareness of budgetary restraints is the increasing use of volunteers by local governments to supplement city staffs. For cities, the contributions made by volunteers go beyond cost savings. Voluntarism both taps and enhances community spirit, loyalty, and commitment, thus helping, in less tangible ways, to enhance the quality of life in cities.

Response of the States

Perhaps the most dramatic change has been the growing responsiveness of States to their cities. Cities have long charged States with neglecting local needs. Hard-pressed central cities in particular, when job and population losses undermined their ability to serve their heavy concentrations of needy people, traditionally bypassed the Statehouse and looked to the Federal Government for relief. The growing professionalism of State governments and the new flexibility granted to them by Reagan Administration policies, coupled with the new national awareness of the need to make the most of existing resources, have led States to become more involved in providing local services. In the past three years, States have increasingly targeted resources to their distressed communities, undertaken major infrastructure repairs, assumed a substantial share of the cost of some key local services, and taken steps to improve local access to credit.

Pivotal to this recent assumption of local responsibility is the restored economic health of the Nation. As stated in the Administration's 1982 *Urban Policy Report,* the foundation for President Reagan's Urban Policy was his Economic Recovery Program. The success of that program is the springboard for the newly formed interrelationships on State and local levels. The President's Economic Recovery Program has reduced the rate of increase of Federal Government spending and restored saving and investment incentives to levels necessary for sustained economic growth. Within three years, economic conditions improved dramatically for most States and urban areas. The following results show that President Reagan's policies are helping to return growth and prosperity to urban areas:

After virtually no growth from 1979 to 1982, the economy grew at a six percent annual rate in 1983 and entered 1984 with strong momentum. Most other economic indicators are now headed upward. Housing starts, for example, have risen above an annual rate of 1.7 million units in 1983 and averaged a 1.95 million annual rate in the first quarter of 1984.

Inflation as measured by the Consumer Price Index (CPI) has been cut sharply from a growth of more than 12 percent when the Administration took office to the current rate of 4.7 percent. State and local governments can once again engage in rational budgeting without having to worry about the disruption of double-digit inflation.

Civilian unemployment dipped from a 10.8 percent rate in December 1982 to 7.8 percent in February-March 1984; this decline of three percentage points is the largest for any comparable postwar recovery period. The unemployment rate decline was broad-based, including all demographic groups and 90 percent of the States.

Almost five million more people have found jobs since December 1982, bringing employment to its highest level in history. Eighty percent of the States have more nonfarm employment than they had one year earlier, and about 70 percent of the metropolitan areas have more nonfarm employment than they had one year earlier.

Interest rates, despite their recent rise, are still sharply lower; the prime rate is nearly half of what it was at the start of 1981, when it was 21.5 percent.

Budget positions of State and local governments have been significantly enhanced. State and local operating budgets moved into a sharp $15 billion surplus in 1983. Knowing that they can look forward to constructing surpluses, States and counties are restoring services cut in the recession and are increasingly helping their cities. For cities, because of the national economic recovery, their own innovative public-private strategies, and increased aid from State and county levels, their fiscal position is the strongest it has been in a number of years.

Policy Principles

President Reagan's Urban Policy, continuing to encourage these positive trends, affirms the following principles:

- To continue to keep the Nation on the path of economic growth.
- To continue to facilitate, through block grants and further deregulation, the development of State and local authority and cooperation.
- To continue to encourage public/private cooperation.
- To continue to help cities with special problems anticipate and adjust to economic dislocation.
- To continue to help care for the truly needy.
- To continue anticrime initiatives which have helped bring about the first annual drop in the crime rate in five years.
- To continue to focus national attention on the quality of education and increased State and local flexibility.
- To continue to provide, through the Surface Transportation Assistance Act of 1982, resources for rebuilding the Nation's infrastructure and to provide technical assistance to States and localities on cost-effective capital investment strategies.
- To continue to promote civil rights through vigorous

enforcement of legal protections against discrimination, by acting to guarantee equal treatment in publicly funded programs, regardless of race, color, sex, creed, or national origin, and, when appropriate, continuing to increase the involvement of State and local human rights agencies.

The following chapters examine in detail the effects on all three levels of government of the Reagan Administration's Urban Policy. Chapter II discusses how far the Administration has come in promoting a reordering of our Federal system and points out how States and localities, in partnership with the private sector, are demonstrating increased capacity, willingness, and cooperation in solving local problems. Chapter III examines the impact of recovery on urban economies, the special economic problems of older central cities, and the steps taken by the Administration and States and localities to try to deal with these problems. Chapters IV and V examine specific problems facing a number of our cities and responses by public and private sectors to these problems. Chapter IV focuses on the Administration's effort to target assistance to the neediest households, and initiatives by all levels of government to enhance the social and economic well-being of urban residents with regard to crime and education. Chapter V examines issues of housing and infrastructure.

Initiatives Underway

In the past three years the Administration has undertaken several major initiatives to implement its Urban Policy principles. Highlights of initiatives currently in place or being developed include the following:

Continued Economic Growth

The economy is projected to grow at rates of more than five percent in 1984 and four percent in 1985. The composite index of 12 leading indicators, which predicts future changes in the economy, has risen in 16 of 18 months since November 1982. Low inflation rates and lowered interest rates, increased consumer spending in 1983, tax reductions and the reduction in regulations which saved billions for businesses, the record level of foreign investments in the United States, and the $15 billion budget surpluses in State and local government coffers—the combined effect of all these has helped stimulate strong business expansion.

The primary tool for the continuation of a strong economy is the Administration's Economic Recovery Program. The Economic Recovery Tax Act of 1981 (ERTA) and the Tax Equity and Fiscal Responsibility Act of 1982 have substantially improved the climate for saving and business investment. For example, under ERTA, tax credits are provided for property restoration so that a city's aging buildings become a source of profit for private investors. These tax credits are preventing further property deterioration and eventual abandonment, through primarily private, not public, action. In 1983 alone, approximately $2.1 billion in private funds were spent on rehabilitating older buildings. Not only has ERTA resulted in additions to the housing stock, but it has also increased State and local revenues, created new jobs, and returned funds to the Treasury.

The Administration is very concerned about the large Federal deficit and has consistently urged Congress to trim government outlays to cope with the problem. The President has suggested a downpayment of $148 billion in deficit cuts for the next three years. He has also endorsed a constitutional amendment mandating a balanced budget each year. Forty-nine of the 50 States' constitutions contain such a directive. National momentum is building toward the Balanced Budget Amendment. In 1982, it passed the Senate by a two-thirds vote and received a majority in the House. Thirty-two States have directed Congress to adopt this measure or to hold a constitutional convention for that purpose.

Continued Strengthening of State and Local Authority

In every Federal department and agency over the past three years, programs have been reviewed to identify ways to increase State and local authority.

In addition, new programs such as Rental Rehabilitation and the Job Training Partnership Act have been structured and administered to provide maximum State and local discretion and minimum Federal intrusion. The implementation of the block grants that consolidated 57 programs into 9 through the Omnibus Budget Reconciliation Act of 1981 is undergoing thorough evaluation, from many perspectives, to provide a foundation for future consolidation efforts.

The impact of deregulation is also being examined to identify opportunities for further easing of unnecessary administrative burdens. Major savings for State and local governments, of $2 billion in annual costs and $4 to $6 billion in initial costs, were achieved through efforts of the Presidential Task Force on Regulatory Relief and the Federal departments and agencies. The Administration expects continued savings for State and local governments will result from a second wave of review and deregulation.

The Administration also strongly supports amendments of the Federal antitrust laws to alleviate the effect of recent court decisions on the operations of local government. The Administration thus supports the enactment of legislation such as Senate Bill 1578 to facilitate the ability of local governments to govern in a manner necessary to protect the health, safety, and welfare of their citizens. The application of antitrust laws to municipal actions is the result of Federal court decisions interpreting Federal statutes. Thus, it is appropriate for Congress to provide the remedy to any problems caused for municipalities by the Federal antitrust laws.

Generally, the Administration believes that Federal antitrust laws should not apply to local government in the exercise of its general government functions, regulatory powers, or provision of public services on an exclusive or nonexclusive basis in a manner designed to ensure public access or otherwise to protect the public health, safety, and welfare. When local governments engage in normal commercial activities, they would be subject to the same antitrust rules as other competitors unless their conduct was undertaken pursuant to valid State law or a specific policy of the State.

The Administration has also said that treble damages and public official personal liability are inappropriate sanctions in those cases in which local action is ordinarily determined to be covered by Federal antitrust laws. A more appropriate remedy in such cases would permit only injunctive relief.

Continued Aid to Cities Suffering Effects of Economic Dislocation

The Administration recognizes that neither the general economic recovery nor the increasing capacity and willingness of State and local governments and their residents to help themselves will solve the problems of all cities.

While more and more cities are sharing the benefits of economic recovery, some cities still have not fully recovered. Older cities, dependent on industries suffering long-term structural problems, made sharper by cyclical fluctuations in income and employment, remain troubled. With large concentrations of the needy, these cities continue to feel financial hardships and are unable to diversify their economic bases or change from a manu-

facturing to a service economy, as other cities have done. Yet these cities have the enormous strengths and competitive advantages of a skilled labor force, extensive infrastructure, choice location, universities, and central business districts.

Recognizing both the special problems and strengths of these cities, the Reagan Administration's Urban Policy is committed to helping them anticipate and adjust to structural change.

The Administration's commitment to helping cities whose revenue base dwindles as industries leave or fail is not based on the notion of centralized planning. Proponents of a national industrial policy argue that the Federal Government should analyze troubled industries, decide which to help and how, and provide the necessary subsidies to do so. Some of our basic industries—steel, auto, textiles—have recently encountered hard times for a number of reasons, including past management mistakes, excessive labor demands, the relatively high value of the dollar internationally, and the heavy hand of government regulations. If some of these industries are now recoverable it will be because the Reagan Administration is removing regulatory burdens created by too many years of centralized planning, removing tax impediments to investment, and reducing inflation and interest rates—thus creating the market conditions most favorable to the recovery of these firms. The strength of the economic recovery will make it possible for farsighted managers to accomplish needed technological changes, capital improvements, and efficiency measures in a time of increasing profitability and market demand. As a result, the necessary modernization of much of our national industrial plant will be brought about with much less strain and distress than would have occurred if the economy had been allowed to continue in the "stagflation" of the late 1970's and 1980.

To aid those cities having difficulty adjusting to the rapid economic changes of the 1980's, the Administration has maintained aid programs focusing on declining cities' needs, and proposed a major new initiative to aid them:

General Revenue Sharing has been continued and maintained at existing levels to enable cities to direct those relatively unrestricted funds to areas of pressing local need.

Community Development Block Grants (CDBG) are being maintained with increased local discretion and modifications to permit greater use for economic development and private sector involvement.

Urban Development Action Grants (UDAG), with streamlined application procedures and adjustments to emphasize job production more strongly, are providing solid help to cities committed to working with their private sectors to bring about economic development.

Enterprise Zones, a vital new initiative to reinvigorate sections of our cities by removing tax and regulatory inhibitions on business to encourage job formation and expansion, has been offered to Congress in each year of the Administration. Despite passage in the Senate, cosponsorship by well over half of the House of Representatives, and enactment of Enterprise Zone legislation in over 20 States, this important experiment and potential aid to our cities has been allowed to languish in Congress. The Administration will continue to press for the earliest possible passage and implementation of the Enterprise Zone program.

Technical Assistance can be an extremely useful tool for helping cities to adjust to local circumstances while taking advantage of experience gained around the Nation. The Administration continues to provide technical assistance to cities to assist them in addressing their most pressing problems. For example, HUD has undertaken special technical assistance efforts for the Nation's 10 cities of highest unemployment, sending in special teams to provide economic development and strategic planning aid as well as specific help on developing projects suitable for Urban Development Action Grants.

Continued Targeting of Assistance to the Needy

Close to 62 percent of people with income below the poverty level live in metropolitan areas. Recent reports indicate that, with the onset of uncontrolled inflation and resulting recessions, poverty levels had been increasing since 1979. With economic recovery, the Nation is back on its track of progress against poverty. Although many problems remain, the conditions of the poor are being alleviated by the President's Economic Recovery Program and other initiatives.

Effects of Economic Recovery

The Nation's economic recovery has done much to help the poor by increasing the purchasing power of their income. In the 1970's, benefits for the average family on

Aid to Families with Dependent Children (AFDC) increased by one-third. But high inflation in that decade meant that even though a family had more money, it could buy a third less at the end of the decade than at the start. Now, with inflation cut to just 4.7 percent, a poor family of four with a poverty-level income has nearly $800 more purchasing power than it would had inflation continued at the same rate as in the years prior to the President's inauguration.

Improved Targeting and the Needy

Welfare reforms passed in 1981 were designed to lower costs, improve program equity, maintain the safety net, and reduce dependency on government assistance. By implementing measures designed to restrict AFDC eligibility to those whose income and resources are insufficient to meet basic needs, these reforms saved about $2 billion in State and Federal outlays. At the same time, States put the money saved to good use by actually increasing benefits to the truly needy.

Actual cash and medical assistance to the needy has grown, and the number of people served by programs such as Medicaid, AFDC, and Supplemental Security Income (SSI) has increased by half a million. Food stamps are benefiting 2.3 million more people this year than in 1980, and spending for the program was $3.6 billion higher in 1983 than it was in 1980. Spending for the Women, Infants, and Children (WIC) program has increased from $774 million in 1980 to over $1.1 billion in 1983. In the area of assisted housing, HUD expects to be providing subsidies through housing programs by the end of FY 1985 to almost four million families—up from 3.3 million at the end of FY 1981. These totals include only direct, ongoing HUD subsidy payments. Counting all forms of Federal low-income housing subsidies, the total number of families assisted will reach 4.9 million by the end of FY 1985.

Emergency Needs

To focus on emergency needs of the poor, the Administration established an Interagency Task Force on Food and Shelter, which has made available Federal resources, such as vacant HUD-held housing and military bases for public and private groups in cities, and $140 million through the Federal Emergency Management Administration (FEMA) in 1983 and 1984. Also, working with a coalition of private groups, the Administration is supporting a 10-city demonstration to address emergency needs.

Minority Youth Training

The most extensive enduring problem of unemployment exists among minority youth. The newly enacted Job Training Partnership Act (JTPA) directs a majority of its financing to this problem. Not only are the youth-oriented Job Corps Training Program and the Summer Youth Employment and Training Program being continued, but 40 percent of the resources available to States under the general grant for training for private sector employment must be used for youth. The majority of the $3.6 billion requested for Job Training Partnership Act programs will be spent on services for economically disadvantaged youth.

Youth Opportunity Wage

The major task now is to remove government-imposed barriers from getting needed work experience. The President is urging the Congress to enact a Youth Employment Opportunity Wage for the summer months (75 percent of the regular minimum wage) which will enable employers to expand job opportunities for youth.

Minority Youth Training Initiative

In addition, the Administration is exploring ways to use existing Federal programs in coordinated fashion to accomplish both their primary purposes and to ease difficulties in minority youth employment and training. After consultation with the Department of Labor, HUD has initiated the Minority Youth Training Initiative (MYTI). HUD is providing $100,000 each to 20 participating cities and counties through Comprehensive Improvement Assistance Program funds made available to their public housing authorities. The CIAP funds are then combined with funds available to the local communities through the Job Training Partnership Act administered by the local Private Industry Councils and used to provide training to minority youth in housing management and maintenance. The local governments and Public Housing Authorities are working with their Private Industry Councils to identify job placement opportunities for the trainees.

Project Self-Sufficiency

Project Self-Sufficiency is an effort to coordinate housing and a broad network of public and private services for single-parent households, usually female-headed households, to enable single parents to obtain job training and entry-level positions. Child care, counseling, and other needed services will be combined with housing certificates to provide a foundation which will give single parents the freedom and security to participate in job training programs without undue concern for the welfare and safety of their families. These training programs will be tailored to meet the job market needs and opportunities of local participating communities.

The increase in single-parent, especially female-headed households, generally due to the breakup of intact families, is the single greatest factor in the increase of poverty. While the Administration supports the social values that maintain and strengthen the intact family, it is concerned about the unique problems of single-parent households. Programs such as Project Self-Sufficiency can help to address these problems.

Employment Opportunities

Our recovering economy created over three million jobs in 1983. The Administration expects growth to create some five million new jobs by the end of next year.

Job Training Partnership Act

The Job Training Partnership Act (JTPA) replaced the ineffective Comprehensive Employment and Training Act (CETA), in which most of the available funds were eaten up in wages and administrative costs. The JTPA requires that at least 70 percent of funds be used specifically for training. By enabling States and local communities to determine their training needs and target the uses of the funds, the JTPA is expected to train people more quickly and efficiently for real positions in the private sector, rather than make-work public jobs as frequently occurred under CETA. As exhibited in HUD's MYTI program, the JTPA block grant makes possible creative coordination of Federal, State, and local programs at the local level in response to local needs and local job market conditions.

Anticrime Initiatives

Crime is one of the most serious problems facing Urban America. City dwellers, particularly minority groups, are the predominant victims of crime. The reduction of crime is one of the highest priorities of President Reagan's Urban Policy. The Administration has launched major anticrime initiatives, ranging from focusing national attention on the victims of crime, on family violence, and on organized crime to a major reform of Federal criminal laws. In 1982 there were signs of progress. Serious crime dropped four percent in 1982, the first annual decrease in the crime rate in five years. It continued to drop, by seven percent, in 1983.

The Administration has acted in many ways to attack the problem of urban crime. In addition, it has placed a special emphasis on attacking drug trafficking and organized crime. The President has also placed a high priority on measures to improve the lot of victims of crime, among whom are disproportionate numbers of minorities and the poor.

- President Reagan appointed the President's Commission on Organized Crime to help develop an overall strategy. The Commission is making a national analysis of the prevalence of organized crime, evaluating Federal laws pertinent to organized crime, and identifying administrative and legislative improvements needed to fight organized crime more effectively.

- The Administration established 12 new regional Drug Enforcement Task Forces throughout the country to mount an attack against drug trafficking. The task forces are able to focus the resources of many agencies, including the Federal Bureau of Investigation; Drug Enforcement Administration; Internal Revenue Service; Bureau of Alcohol, Tobacco, and Firearms; Immigration and Naturalization Services; U.S. Marshals Service; U.S. Customs Service; Coast Guard; and Defense.

- The Office for Victims of Crime was established within the Department of Justice to implement recommendations of the President's Task Force on the Victims of Crime. Among its priority activities, the Office for Victims of Crime established a National Victims Resource Center, is developing model victims legislation, and offers victim training packages for judges, prosecutors, and law enforcement personnel. The Attorney General has established guidelines for Department of Justice units to implement the Victim and Witness Protection Act of 1982, which dictate special attention to victims and witnesses who have suffered physical, financial, or emotional trauma as a result of violent crime.

- The Administration has implemented a substantial majority of the 64 recommendations of the Attorney General's Task Force on Violent Crime, which identified both administrative and legislative ways to combat violent crime.

- Every United States Attorney has established a Law Enforcement Coordinating Committee, made up of Federal, State, and local enforcement officials, to coordinate efforts against the types of crime identified as the greatest problem in each area.

- A National Center for State and Local Law Enforcement Training, established through the Departments of Justice and the Treasury, is complementing the training efforts of the FBI. It trains local law enforcement agents in investigating arson, bombing, bribery, and a variety of offenses relating to organized crime.

- To determine the best means of combating family violence, especially child abuse and molestation, spouse abuse, and mistreatment of the elderly, the Attorney General's Task Force on Family Violence was created in September 1983.

Key to all the activity against the types of crime prevalent in urban areas are the reforms the Administration is seeking in Federal criminal statutes. The Comprehensive Crime Control Act of 1983 was submitted to Congress in March of 1983. It provides for bail and sentencing reform, reform of insanity defenses, and forfeiture measures, and it amends drug enforcement laws to increase penalties and strengthen efforts to prevent diversion of controlled substances.

Continued Emphasis on Education

The Reagan Administration's Urban Policy remains committed to improving the quality of education in the Nation. Through deregulation and program consolidation, the Administration strengthened the ability of State and local educational authorities to manage their programs efficiently. By focusing attention on the quality of education—on higher academic standards and improved discipline—President Reagan has galvanized concerned parents, teachers, school boards, and administrators to take steps to improve and reform local systems.

The Education Consolidation and Improvement Act of 1981 combined 29 categorical programs into a single block grant for the States. It gave State and local educators the authority to make the onsite decisions on priorities they will meet with Chapter 2 funds. Savings in administrative costs resulting from these changes came to $1.8 million and 191,000 person-hours.

The Administration has acted to increase the involvement of the private sector in education. One effort is through Partnerships in Education, an initiative to encourage private corporations to share their expertise and resources with schools. Extensive partnerships have been established in cities such as Dallas, Chicago, and San Diego. Adult illiteracy is being addressed through an effort of the Department of Education and the White House Task Force on Private Sector Initiatives aimed at bringing in private sponsors.

Improving schools will require increased parental control, which the Administration has sought to foster by promoting tuition tax credits for elementary-secondary education and compensatory education vouchers for disadvantaged children. The Administration has also encouraged development of locally designed and administered master teacher and merit pay plans, stricter discipline codes, and increased requirements for high school graduation.

The Administration has maintained a particular commitment to special needs children. For FY 1985, it has requested $4.7 billion for educationally disadvantaged and handicapped students.

Housing

The Reagan Administration has focused heavily on the housing needs of the Nation through a series of key initiatives designed to increase affordability and availability of housing for both low-income people and home buyers.

Through Administration management and budget actions, more low-income families are receiving and will receive housing aid than ever before. Over three million families were receiving assistance through HUD low-income housing programs in 1981; almost four million will be receiving assistance by 1985.

Additional new efforts will enable us to increase services without increasing costs to the taxpaying public.

Vouchers, established as a demonstration for Fiscal Year 1984, are proposed to be launched as a full-fledged program in Fiscal Year 1985, to provide affordability in housing to low-income families. Built on the success of the Section 8 Existing Certificate program and the Experimental Housing Allowance Program, vouchers are aimed at enabling the poor to achieve mobility within urban areas, to participate more fully in the housing market, and to avoid the stigmatization given to high concentrations of the poor in low-income housing projects. It will enable the Federal Government to make more effective use of private sector resources to house the needy.

Rental Rehabilitation is a new program initiated by the Administration to bring together public and private resources in cities with established need for additional low-income housing stock. Cities will use Rental Rehabilitation grants to leverage private investment for rehabilitation. Rental Rehabilitation grants may provide up to 50 percent of the project costs and no more than $5,000 per unit, except where adjusted for high cost areas. Vouchers and Section 8 Existing Certificates will also be provided to aid families residing in the rehabilitated units.

Supplementing the Rental Rehabilitation program, for cities with housing needs which cannot be met with existing stock, is the Rental Housing Development Grant program. This will provide Federal matching funds for new construction and substantial rehabilitation to cities with severe shortages in stock, in a manner similar to that in the Rental Rehabilitation program.

Public Housing

Maintaining the quality and availability of public housing has been a priority of the Administration since 1981. The President has sought and obtained an acceleration of modernization efforts and funding to bring cost-effective public housing stock up to standard. HUD has launched major efforts to improve management with more effective auditing and oversight. Support has been given to expand successes of local authorities which have markedly improved the quality of life in public housing.

Affordability of housing for home buyers has also been a major concern of the Administration. In 1981 home buyers were being driven out of the market by rising costs and interest rates, and the future of housing finance itself was in jeopardy.

By bringing down the inflation and mortgage rates, the Administration has made homeownership possible for five million more Americans who could not afford to buy homes three years ago. Monthly payments on a new $50,000 mortgage are about $200 a month less now than they were in 1980.

The Reagan Administration has also aimed at addressing long-term structural problems which can drive up the cost of housing: excessive regulations and lack of housing finance.

Joint Venture for Affordable Housing

Through a combination of Federal technical assistance and State and local cooperation with private developers, the Reagan Administration's Joint Venture for Affordable Housing has demonstrated that over 20 percent can be saved on the cost of a home through regulatory and processing reform.

Obsolete and unnecessary local regulations and extended application and review procedures have frequently added both direct costs and the costs of delay to housing prices. By bringing together State and local officials, private developers, and concerned public interest groups such as the National Association of Homebuilders, this HUD demonstration in 30 locations has established that housing costs can be brought down. The Joint Venture for Affordable Housing is now being expanded to every State and to infill projects.

New Sources of Housing Finance

Through an extended effort led by HUD Secretary Samuel R. Pierce, Jr., the Administration has expanded the sources of housing finance. HUD launched a pioneering communications effort to the Nation's pension funds involving conferences, intensive work sessions, mailings, and a major publication both to attract additional investment from their over $700 billion in assets and to identify what was needed to enable mortgage investments to compete effectively for funds. The Department of Labor eased restrictions on ERISA regulations, removing barriers to prudent pension fund investment in housing. A monitoring survey, commissioned by HUD, has indicated that private pension fund assets invested in mortgages and related investments increased by 58 percent from 1980 to 1983.

In related efforts, the Government National Mortgage Association (GNMA) has developed GNMA II, a centralized and modernized form of GNMA investment capable of meeting the needs of modern investors and institutions. In addition, GNMA certificates are now listed on the Singapore and Luxembourg exchanges, encouraging increased foreign investment, and GNMA's are now being sold in Japan.

Fair Housing

Increased affordability will not by itself solve such problems as the persistence of racial segregation and discrimination in American cities and suburbs. The Administration has taken strong measures to strengthen the role of State and local fair housing enforcement agencies in cooperation with HUD. Most importantly, the Administration has pressed aggressively for amendments to the 1968 Fair Housing Act to strengthen enforcement by providing for stiff financial penalties and direct litigation unencumbered by bureaucracy. The Administration's efforts have led to increased participation of State and local governments in processing fair housing complaints and major increases in voluntary compliance efforts through Community Housing Resources Boards.

Infrastructure

The Surface Transportation Assistance Act of 1982 represents a major part of the Administration's response in meeting Federal responsibility for infrastructure needs. The Act provides for completion of all segments of the interstate system by the early 1990's, an immediate spending increase of 144 percent over levels prior to the Act for rehabilitating and preserving existing segments of the interstate system, and a 90 percent increase in authorizations from 1982 to 1986 for primary highways and bridges. In addition, one cent per gallon of the new motor fuel tax will provide approximately $1.1 billion annually for mass transit capital assistance. In all, passage of the Assistance Act of 1982 will lead to a projected 17 percent increase in all Federal transportation capital assistance to State and local governments between 1983 and 1984.

Local operating costs for infrastructure and mass transit are best handled at the local level. Therefore, the Urban Mass Transportation Administration (UMTA) has proposed phasing out operating subsidies as capital assistance has been increased. In addition, the States have shown, through financing innovations, an increasing willingness to meet the responsibility for ongoing infrastructure development and maintenance.

The Federal Government's major contribution to the financing of public infrastructure (other than highways) by State and local governments is the subsidy implicit in tax-exempt bonds. The Federal subsidy to State and local infrastructure financing in 1984 will amount to roughly $6 to $7 billion in reduced interest costs. The Administration is committed to this support for State and local capital spending. It has also supported legislation designed to limit the proliferation of private-purpose bonds. Effective restrictions on private-purpose issues will improve the value of the subsidy to State and local governments issuing tax-exempt bond to finance public capital spending.

Continued Encouragement of Public-Private Partnerships

The President understands the importance of the private sector in rebuilding America's local economies. This understanding led to the creation of the White House Office on Private Sector Initiatives, the creation in 1981 of the President's Task Force on Private Sector Initiatives, and finally, the President's Advisory Council on Private Sector Initiatives.

These efforts are aimed primarily at promoting greater use of private resources, human and monetary, for meeting the Nation's needs. These efforts have activated thousands of initiatives and partnerships throughout the country, from the public side (e.g., State and local government task forces), to increased participation by the small and large corporate sector, nonprofit organizations, churches, and many other organizations. One immediate result was the formation of a computer-based information service which provides immediate information on partnership activities to the public and private sectors.

Federal agencies have placed a high priority on partnerships and increased private participation, including such varied projects as increasing participation by the corporate sector in day care centers, to the Education Partnership Program (Adopt-a-School). The Administration sponsored a National Recognition Program for Community Development Partnerships which identified and recognized communities that used the Community Development Block Grant Program to create outstanding public/private partnerships. Over 500 applications were received and 100 were selected for awards.

Notes

1. Statement of Commissioner Milles A. Gregory, Chairman North Carolina Local Government Advocacy Council, before the U.S. Advisory Commission on Intergovernmental Relations March 1, 1984.

Chapter II

Restoring the Grass Roots

Sorting out responsibilities and restoring balance to our Federal system by strengthening the role of State and local governments is one firm foundation of the Administration's Urban Policy. Soon after taking office, President Reagan instituted a dialogue on federalism with State and local government officials. The result of that dialogue was a comprehensive program of regulation reduction in and consolidation of categorical grants which would restore discretion over the use of resources to State and local governments. That restoration process is well underway, and State and local governments are already benefiting from a strong and growing national economy coupled with their increased authority over grants-in-aid.

This chapter takes a fresh look at the process of restoring federalism: how far it has come and where it will go from here. This chapter examines the fiscal condition of State and local governments, concluding that because of their own actions—as well as the improved economy, deregulation, and the greater flexibility provided by the Reagan Administration—they are fiscally healthier than they have been in a long time.

Federalism Debate

When the Reagan Administration began to send the various pieces of its block grant legislation to Congress in 1981, proponents of the status quo feared that these actions would polarize constituencies.

Cities voiced long-standing arguments about State incapacity, inefficiency, and rural bias. In their view, the 1200 percent increase (in current dollars) of Federal aid to localities from 1960 to 1980 was justified for many reasons (Exhibit II-1). Chief among these was the apparent inability or unwillingness of States and localities to provide many necessary domestic services. Their revenue systems, it was argued, could not meet the growing demands for services caused by increasing incomes and populations. Relying principally on excise and sales taxes, State revenue systems were largely unresponsive to growth in income, and taxable resources were unevenly distributed among States, resulting in an unequal ability to provide services. Local revenue systems were heavily dependent on the property tax, and localities were often prohibited by State constitution or statute from tapping other revenue sources. The result was a State and local government revenue system that required Federal grants-in-aid.

As far as willingness was concerned, the cities questioned the receptivity of States to the needs of urban areas. State legislatures, the cities said, were dominated by rural legislators representing districts that contained fewer residents than their urban counterparts. In addition, because urban areas were predominantly the dwelling places of minorities and economically disadvantaged individuals heavily dependent on public services, Federal

EXHIBIT II-1

Historical Trend of Federal Grant-in-Aid Outlays

(Fiscal years; dollar amounts in millions)

		Federal grants as a percent of			
	Total grant-in-aid	Budget outlays		State and local expenditures[2]	Gross National Product
		Total	Domestic[1]		
Five-year intervals:					
1950	$2,253	5.3%	8.8%	10.4%	0.9%
1955	3,207	4.7	12.1	10.1	0.8
1960	7,020	7.6	15.9	14.7	1.4
1965	10,904	9.2	16.5	15.3	1.7
1970	24,014	12.3	21.3	19.2	2.3
1975	49,834	15.4	21.5	23.0	3.3
Annually:					
1976	59,093	16.2	21.9	24.2	3.5
1977	68,414	17.1	22.9	25.9	3.7
1978	77,889	17.4	23.1	26.8	3.7
1979	82,858	16.9	22.5	26.3	3.5
1980	91,472	15.9	21.2	26.3	3.6
1981	94,762	14.4	19.5	25.1	3.3
1982	88,194	12.1	16.6	22.0	2.9
1983	93,013	11.7	16.1	21.8	2.9
1984 est.	98,765	11.6	16.4	NA	2.8
1985 est.	102,218	11.0	16.1	NA	2.6
1986 est.	104,584	10.5	15.8	NA	2.5
1987 est.	107,939	10.1	15.4	NA	2.4

1. Excludes outlays for the national defense and international affairs functions.
2. As defined in the national income and product accounts.
NA = Not available.

Source: "Special Analysis H: Federal Aid to State and Local Governments," *Special Analysis, Budget of the United States Government, 1985,* Washington, D.C.: U.S. Government Printing Office, 1984, p. H-16.

aid and oversight were required, it was argued, to deal with the persistent problems of these disadvantaged.

States, for their part, expressed strong doubts about the Federal Government's desire or ability to provide real flexibility to States. Twenty years of having to comply with an ever-increasing load of Federal mandates had convinced them that the "Feds" would somehow play "gotcha" in the end, thus further inhibiting their ability to deal flexibly with their cities.

Various interest groups raised "national purpose" arguments. Without the direct control of categorical restraints, how could the Federal Government ensure fullfillment by States and localities of national goals? At the Federal level, aid was often seen as a lever to be used to ensure that State and local expenditures were compatible with national objectives such as environmental protection, occupational safety, and nondiscrimination. As the number of national objectives proliferated, so did the use of the lever.

To counter these various arguments, the Administration could, in the first place, point out the costs of Federal aid to States and localities. The uniform application of costly Federal standards accompanying Federal aid had reduced necessary and desirable diversity among local government services. The matching requirements associated with much of the categorical assistance given by the Federal Government had caused localities to commit sometimes sizable portions of their budgets toward Federal priority projects, thereby reducing local budget flexibility and replacing State and local priorities with those of the Federal Government.

More important, the Administration could point to the growing professionalism, accountability, and responsiveness of State and local governments.

State Government Modernization

Much has occurred within State governments in the past 30 years to substantially alter the deficiencies that the Advisory Commission on Intergovernmental Relations (ACIR) noted as commonplace in the 1920's:

Many States operated under the handicap of out-of-date, restrictive constitutions. Constitutional deficiencies, when coupled with unrepresentative State legislatures, weak Governors, and financial distress, seriously eroded the States' ability to address and solve pressing problems and public confidence waned.

The Commission concluded that:

A largely unnoticed revolution has occurred in State government. The States have been transformed to a remarkable degree. The decades of the 1960's and 1970's witnessed changes in State government unparalleled since the post-Reconstruction period a century ago, generally in the direction advocated by reformers for 50 years.[1]

Twenty years ago, all but five State legislatures were badly malapportioned. Since *Baker vs. Carr* (1962), every State has apportioned its legislature on the basis of one person, one vote.

Eighty percent of the States have taken actions to update their constitutions since 1950. Most have adopted reforms to enhance the powers of the chief executive,

improve legislative capability, and extend revenue authority for many local jurisdictions.

Executive power in State government has become more focused, more accountable, and more professional. To strengthen their executives, States have extended their Governors' term of office and granted them more authority to implement their programs. Forty-six States now have four-year gubernatorial terms; 45 permit their Governors to succeed themselves; virtually all Governors now control a State planning unit. Between 1965 and 1980, all States undertook reorganizations of executive departments; 24 reduced the number of independently elected administrative heads.

State legislatures have also made significant strides in achieving greater professionalism, increased openness, and improved efficiency. Almost all State legislatures now meet every year in either regular or special session; professional staffs now provide technical support for the finance and appropriations committees or in a central legislative unit in every State on a year-round basis, compared to only a handful 20 years ago.

Every State judicial system is required to hear and remedy cases arising under constitutional and other Federal law. In addition, State courts have taken the lead in many instances in extending rights beyond those recognized in Federal law. State court systems in virtually every State have been dramatically reformed.

State responsiveness to local fiscal needs has dramatically increased. Total State aid to localities from the States' own revenues grew nearly sixfold from 1965 to 1980 and now surpasses $60 billion a year.

Local Government Innovations

Modernization has also taken place at the local government level, enabling localities to provide public services more efficiently and effectively. Until the 1960's, localities were constrained by the mismatch between political boundaries and population settlement patterns as well as by limits on local indebtedness, taxing power, functions, and boundary adjustments imposed by States. Over the past 20 years, however, States and localities have worked more cooperatively; and States have increasingly granted home rule flexibility to local governments. Local boundaries have been adjusted to conform more closely to the population affected by a particular local activity, and States have increased local government authority and access to revenues.

One innovation which has increased local government flexibility is the transfer of services initially provided by a general-purpose municipality to another unit of government (e.g., county, State or special-purpose district) or to the private sector. From 1965 to 1975, over 1,700 spinoffs of functions from municipalities occurred, with counties receiving 56 percent, special districts 19 percent, and States 14 percent.

Annexation was the most common way, particularly in the South and Southwest, to extend the service or financing reach of a municipality. From 1970 through 1977, "over 48,000 annexations occurred, adding nearly 7,000 square miles and 2.5 million people to cities over 2,500 in population. "[2]

In addition to functional transfers and annexations, city-county consolidations, intergovernmental service agreements (the voluntary agreement of two or more local governments to cooperate in the provision of a service), and the exercise of extraterritorial power (the use of a municipality's authorities beyond its own borders) have proven effective in increasing municipal flexibility. issues more effectively. Revenue base-sharing schemes, such as Minnesota's tax-base sharing plan for the St. Paul-Minneapolis area, and greater cooperation of local public authorities and private organizations, have also furthered municipal efficiency. Private-public cooperation in the form of contracting out (where the municipality maintains some discretion over the level of service provided or the groups served, or where the service is moved into the private sector) has also become a popular method for enhancing local government services.

Administration Actions

The Reagan Administration felt that all these modernization efforts in State and local governments justified its confidence in the ability of State and local officials to make their own decisions and manage resources wisely.

The Administration's rebalancing strategy, therefore, had three basic goals: to enhance modernization efforts in State and local governments, to increase intergovernmental cooperation, and to provide fiscal flexibility to State and local government.

This strategy, in turn, involved three basic components: First, in the Omnibus Reconciliation Act of 1981, the Administration consolidated 57 categorical grants into 9 State block grants, among them creating a Small Cities State Block Grant for Community Development and replacing Title XX with the more flexible social services block grant. Second, in various pieces of legislation, the Administration also moved to cut categorical strings that had become attached to existing block grants. Third, the Administration took steps to relax or rescind more than 1,200 regulations affecting States and cities.

Evaluations of these initiatives indicate each had significant impact toward the three goals of modernization, cooperation, and flexibility.

In the area of regulatory reform and reduction, for example, Administration initiatives had the dual effect of increasing State and local flexibility and reducing State and local expenses.

A 1979 list of Federal regulations imposed on a sampling of five States and five cities in those States recorded 1,260 Federal regulations. Of these, almost 80 percent were contractual obligations or conditions of Federal aid, and the remainder were direct orders. Between 1971 and 1978, the pace at which the Federal Government attempted to regulate local activities accelerated rapidly, with a total of 1,079 regulations being imposed on these jurisdictions in that period.[3] In 1978 alone, Federal regulations cost the U.S. economy more than $100 billion.

The Office of Management and Budget (OMB) has calculated cost savings to State and local governments as a result of the Administration's regulatory review program. In 1981, OMB estimated that subnational governments saved $2 billion in annual costs and $4 billion to $6 billion in one-shot, startup costs. Much of these cost savings can be attributed to relaxed regulations in two areas—access for the handicapped and bilingual education.[4] Much cost reduction resulted also from the activities of the Presidential Task Force on Regulatory Relief.

Some of the major governmentwide streamlining efforts undertaken by the Administration include the following:

Executive Order 12372, "Intergovernmental Review of Federal Programs," which replaced A-95, regulates Federal agency responsiveness rather than State and local comment processes.

The Single Audit, strengthened by the Administration, enables States and localities to conduct their own audits of Federal funds, rather than having to rely on Federal agency auditing efforts and procedures.

Cash Management reforms, now being tested, will lead to intergovernmental cash flow requirements that make sense in terms of existing State and local procedures.

Other recent regulatory relief efforts include:

- The Department of Agriculture simplified cost-accounting procedures in the national school lunch program and revised rules for the collection of data to examine State agency compliance with matching requirements. These reforms reduced the information-collection burden for States by approximately 21 million hours each year.

- The Department of Education prepared nonbinding guidance to States for implementing the State education block grant. The guidelines responded to requests from States for additional guidance and took into account their concerns and suggestions about limiting administrative requirements.

- The Department of Energy simplified the financial assistance procedures for grants to small jurisdictions.

- The Environmental Protection Agency (EPA) streamlined its grants appeals process to allow EPA regional administrators greater discretion in resolving appeals formerly referred to EPA headquarters in Washington. The agency also revised its construction grant regulations to give States more authority over the operation of their programs.

- The Department of Health and Human Services proposed rules to improve the early and periodic screening, diagnostic, and treatment child health activities under the Medicaid program. The new rules should significantly reduce administrative time and costs so that more resources can be used to provide health care. The Department issued simplified rules for child welfare services and developmental disabilities.

- The Department of Housing and Urban Development revised the rules affecting the entitlement portion of the Community Development Block Grant program. The new rules reduce and simplify housing assistance plan requirements and substitute a simplified statement of purpose for the previously required application.

- The Department of Labor issued minimum and nonprescriptive regulations under the new Job Training Partnership Act.

- The Department of Transportation simplified rules governing the urban transportation planning process for State and local jurisdictions.

- In addition, the Federal Aviation Administration (FAA) proposed rules eliminating approvals that are now required when a local government makes minor changes to an FAA-approved airport layout plan.

- The Urban Mass Transportation Administration (UMTA) simplified and consolidated requirements for local governments to obtain funds under the Formula Grant program. The Formula Grant program provides funds for routine capital requirements and limited operating assistance.

The regulatory reduction examples just cited not only reduce man-hour burdens to State and local governments but greatly enhance their ability to set their own priorities.

In regard to the other Administration initiatives, evaluations by the General Accounting Office and others indicate that the Administration's confidence in States and local governments was amply justified. States are displaying increased sensitivity to the needs of their cities, intergovernmental cooperation has increased, and both States and localities are using the increased flexibility more effectively to meet the needs of their citizens.

For example, States and localities are also asserting their priorities in program design and management. Major studies of the impact of the new block grant programs are still underway, but preliminary findings suggest that the majority of States have maintained and even increased program levels. Drawing upon other Federal funds and State and local resources, they have allocated resources among program activities in accordance with their own priorities to the degree permitted under statute, and they have welcomed the increased discretion and reduced Federal reporting requirements. In general, Governors and State legislators have been involved more directly in planning and resource allocation than they had been under many of the prior categorical programs. The States have also moved quickly to involve a wide spectrum of people and groups in the allocation of these funds. To the extent that States have shifted funding priorities, resources have been targeted to the poorest populations or to families on welfare.

With increased responsibility for the Medicaid program, for example, States have begun to establish effective cost-containment policies and to improve services to the needy. The Intergovernmental Health Policy Project, which has been systematically surveying State Medicaid programs, draws strong contrasts between 1981 and 1982 in a report issued in April 1983. It notes that, prior to Administration-initiated reforms, out-of-control growth was forcing States to retrench, often to the disadvantage of recipients. In contrast, new flexibilities provided under the reforms have allowed States to increase services and add beneficiaries. States have used this flexibility both to increase cost-effective services and control costs. For example, almost all States have been granted waivers by the Department of Health and Human Services to support home and community-based services, and approximately one-third have elected to provide coverage for disabled children at home. Specifically, the report notes that:

1981 can be characterized generally as a period of moderate retrenchment on the part of many State Medicaid programs and severe retrenchment for a few.

Perhaps the most striking difference between the two years [1981 and 1982] is that even in the face of continued fiscal stress, a substantial number of States acted in 1982 to add new services, reinstate previously eliminated benefits, lift existing restrictions on access, or even increase payments to providers.

Also in contrast to 1981, 1982 marked the beginning of a gradual shift in the focus of cost-containment activities away from the traditional shortterm strategies, e.g., limitations on eligibility and services, reductions in provider payments, etc., to a concentration on more long-range, structural reforms in the organization, financing and delivery of Medicaid services.[5]

A good example of the way in which the Administration's consolidation efforts have encouraged and developed city-State cooperation is the State Community Development Block Grant for Small Cities. Transfer of the Small Cities CDBG program to State administration went very successfully. States were able to determine their own objectives, design their own programs, and select grantees—all within a short period of time. Generally, local governments were significantly involved in design of their States' programs and responded positively to their programs' implementation and outcomes, comparing them favorably to the prior HUD-run program. In most States, advisory bodies of the small cities played a large role in determining the format and priorities of the State program. A series of reports evaluating the program have indicated that, under State control, many more cities have been able to participate in the Small Cities CDBG program, up to three times as many in some States. In addition, funds used have been more highly targeted to lower income areas and persons, vindicating the Administration's faith in State and local governments' ability and willingness to meet the goals of the CDBG program.

The increasing sensitivity of States both to needy people

and needy places is also reflected in changes during the past three years in their revenue and expenditure systems.

Equity features now built into many State revenue systems include (1) the exemption of food (and sometimes clothing and prescription drugs) from the sales tax or the provision of an income tax credit for such purposes; and (2) State-financed "circuit breakers" that refund property tax payments in excess of a given percent of household income for elderly and low-income households. At the same time States are indexing their own income tax systems to reflect economic realities, they are moving to protect their ability to finance programs during economic downturns through the establishment of "rainy day funds."

In terms of expenditure equity, by the beginning of 1984 only one State did not have a State-local revenue-sharing program. Forty-one use an equalizing formula which helps jurisdictions in distress. Finally, 42 States, many since 1980, have enacted provisions improving local government access to credit, and 26 States have extended local taxing authority.[6] By the end of 1983, nearly all States had assumed the local share of the costs of Medicaid and Aid to Families With Dependent Children. And 1983 was the first year in which the States as a whole paid over 50 percent of local education costs.

With the increased flexibility created by the new block grants, States have altered the mix and emphasis of programs offered and are increasingly tailoring programs to meet the needs of their communities. Distressed localities, in particular, have been beneficiaries of this increased State flexibility and responsiveness. A recent Advisory Commission on Intergovernmental Relations (ACIR) study on State aid to distressed communities concludes:

State governments now have programs which (1) encourage and facilitate private investment and employment in distressed communities through development finance and assistance programs; (2) empower local governments, neighborhood self-help programs, and non-profit voluntary organizations to engage in community stabilization activities; (3) give direct financial aid to low-income individuals for housing rehabilitation; and (4) provide fiscal and technical assistance to local governments.[7]

On both State and local levels the Reagan Administration initiatives such as the block grants and Executive Order 12372 have accelerated the development of intergovernmental service agreements, consolidations, annexations, and public-private partnerships.

As an additional tool to facilitate these arrangements, the Administration has provided advice to local governments on intergovernmental service agreements by supporting the development of *Interlocal Service Delivery: A Practical Guide to Interlocal Agreements/Contracts for Local Officials,* published by the National Association of Counties. Recent examples of successful intergovernmental agreements from this publication include:

- Douglas County, Colo., has agreed to provide the recently incorporated town of Parker, Colo., with technical assistance, at no cost, to carry out the city's land use and land development regulation responsibilities.
- Hanover Park, Ill., and Park Ridge, Ill., have joined with other members of the Northwest Municipal Conference to reduce costs for recruiting entry-level police officers. The intercity program has reduced recruiting and testing costs dramatically.
- DeKalb County, Ill., has entered into an agreement with the City of DeKalb and the DeKalb Park

District to purchase and develop an abandoned railroad right-of-way for a multipurpose nature trail for hiking, bicycle riding, cross-country skiing, and other recreational activities.

- Cooperation between school districts provides another promising opportunity for interlocal agreements. Williamsburg and James City/County, Va., have a joint school board. The cooperative purchasing saves the schools money on fuel, heating oils, and trash removal services, among other costs. The timely exchange of information has improved budgeting, and joint studies have increased effectiveness and reduced costs of telephone systems, insurance, data processing, and records management. Cooperative ventures in purchasing, equipment use, and information sharing are expected to increase as more and more savings are realized.

Public-private partnerships are also becoming increasingly important. For example, the Center for Engineering Excellence is a partnership between the State of Arizona, Arizona State University, and a coalition of high-technology firms joining forces to construct a new research center. The private sector has contributed over $16 million to expand the graduate program in science and engineering. Even before completion, the Chamber of Commerce reported a large increase in high-technology firms wishing to relocate new facilities in the Phoenix area.

Aetna Life and Casualty teamed up with a neighborhood group in Lowell, Mass., to preserve an inner-city neighborhood in an eight-block area populated primarily by low-income Hispanics and Asian refugees. Residents formed the Coalition for a Better Acre with funding from Aetna and technical assistance from the Chicago-based National Training Information Center. With city help, an apartment building has been renovated and homeowners have been helped to keep their homes. The Coalition is also working with the city on an anticrime program, voter registration, and a long-term neigborhood site plan using donated architectural assistance.

The heightened national atmosphere of intergovernmental cooperation and the heightened sense of the need for public and private sectors to pull together have sparked a wave of voluntarism across the Nation. Voluntarism and self-help are not new phenomena; but in the past decade, a new twist has been added: the use of volunteers by local governments to supplement staff or deliver city services. A direct result of acceptance by citizens and elected officials of the need for budget restraint, "cutback management" has inspired efforts to capitalize upon the desire of many citizens to contribute time and resources to their communities.

For example, the City of Baltimore, Md., now uses volunteers to enforce exterior sanitation and housing codes. The volunteers are approved by neighborhood organizations and work closely with the organizations in the area they serve.

The City of New Orleans, La., has established a citywide volunteer program called VIGOR—Volunteers in Government of Responsibility. In 1982, 3,000 volunteers worked in 85 city agencies.

The police department of Virginia Beach, Va., uses volunteers to provide services to the public, to assist uniformed officers, and to supplement ongoing programs. Volunteers are used in the crime analysis unit, the investigative division, the uniformed division in the vehicle transport program, and the marine patrol.

Finally, even without city sponsorship, a nonprofit, grassroots organization in St. Paul, Minn. —the Tangletown Neighborhood Association—has an agreement with a trash hauler. Residents arrange for the service delivery with the hauler. The agreement allows the hauler to reduce prices to participating residents both because a large percentage of customers are served in the neighborhood, and because the association recruits participants for the hauler.

Improving State and Local Fiscal Conditions

The combination of economic recovery, lessened Federal regulatory burdens, and flexibility in the use of Federal resources has contributed to the increased financial strength of our State and local governments. Aggregate fiscal data indicate that, as the Nation's economy improves, State and local governments are reestablishing their fiscal health. The surplus for the State and local government sector (excluding social insurance funds, primarily pensions) was $15 billion for 1983 as compared to a deficit of $1.9 billion for 1982.

Exhibit II-2 provides information on State government fiscal strength. It shows State and local government operating account surpluses and deficits as a percentage of receipts, excluding social insurance funds (primarily pensions). The Office of Management and Budget explains recent surpluses and deficits as follows:

- The surpluses in the early 1970's were largely the result of the initiation of General Revenue Sharing and strong economic growth.

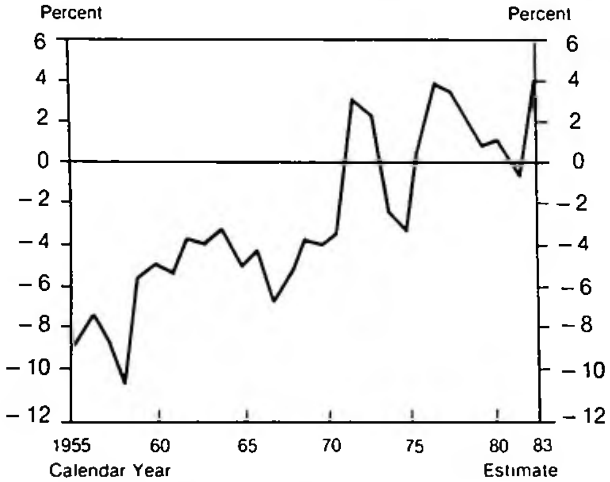
- The low point in 1975 was largely the result of the recession.
- The surpluses in the latter 1970's were largely the result of economic recovery, increases in antirecession Federal grants, reductions in debt-financed capital spending, and general restraints in government spending exemplified by the passage of Proposition 13 in California in 1978. [8]

The recessions of 1980 and 1981 forced many States and localities into deficit. These governments consequently reduced expenditures and increased taxes. These actions, coupled with the strong economic recovery in 1983, have returned the accounts to a healthy position. As the recovery continues, the outlook for continued fiscal health appears quite good.

Another indicator of relative fiscal health is State fiscal capacity. Differences in State fiscal capacities provide an indication of differences in States' fiscal ability to help their own cities. Recent work by the Advisory Commission on Intergovernmental Relations (ACIR) shows that there was a convergence of State fiscal capacities between 1967 and 1979. States' fiscal abilities per capita were becoming more equal. Preliminary evidence suggests that a slight widening of disparities among States occurred between 1979 and 1982 based on the per capita income index. While disparities in State fiscal capacity continue to exist, however, they are well below the levels measured in 1967.

EXHIBIT II-2

State and Local Surpluses and Deficits as a Percent of Receipts



Note Excludes Social Insurance Funds
Source: Budget for Fiscal Year 1985.

In addition to what is known about States, more recent information on the fiscal condition of cities is provided by a recent Joint Economic Committee study. Based on a sample of 299 localities representing cities of all sizes, the study estimates average budgeted deficits for 1983 of $11.44 per capita, down from $12.50 in 1982. Interestingly, the deficits predicted by this study of cities for 1981 and 1982 did not occur. That is, in 1981 and 1982, actual budgets showed year-end surpluses of $13.18 and $7.73 per capita, respectively. [9]

A study of the fiscal condition of 29 large cities, recently updated, suggests that, on the average, these large cities are in a relatively strong fiscal position. For both 1981 and 1982, revenues exceeded expenditures in these 29 cities by 1.5 and 1.2 percent respectively. [10] Clearly, their position has improved substantially since 1980.

These budget surpluses come as a pleasant surprise to many local public officials. The better-than-expected results quite likely reflect the influence of two major factors: (1) the innovative and efficiency-enhancing procedures adopted by local officials in many cases encouraged or newly allowed by Federal deregulation and consolidation policies; and (2) the strength of the economic recovery and its beneficial impact on cities.

Conclusion

The Administration's efforts to restore balance to our intergovernmental system have had significant impact on the economic well-being of our State and local governments and the quality of life of their residents. States and localities have taken advantage of their increased authority and flexibility to manage more efficiently, improving functions and services at both levels of government.

Of course, the foundation for the present fiscal and political health of States and localities is the success of the President's Economic Recovery Program. Economic recovery and its beneficial effects on urban conditions are examined in the next chapter. Chapter III also looks at the special problems of cities that have not yet felt the impact of the national economic recovery and discusses responses to these problems by the various levels of government.

Notes

1. Advisory Commission on Intergovernmental Relations. *State and Local Roles in the Federal System: In Brief.* Washington, D.C., 1981.
2. *Ibid.,* p. 14.
3. C.H. Lovell et al. *Federal and State Mandating on Local Governments: An Exploration of Issues and Impacts.* Riverside, Calif.: Graduate School of Administration, University of California-Riverside, 1979.
4. U.S. Office of Management and Budget. *Special Analyses, Budget of the United States Government, 1984.* Washington, D.C., January 1983, p. H-21.
5. Intergovernmental Health Policy Project. *Recent and Proposed Changes in State Medicaid Program: A 50 State Survey.* Washington, D.C.: George Washington University, December 1983.
6. Advisory Commission on Intergovernmental Relations. *The States and Distressed Communities: Final Report.* Draft, Washington, D.C., December, 1983.
7. *Ibid.*
8. U.S. Office of Management and Budget. *Special Analyses, Budget of the United States Government, 1985.* Washington, D.C., January 1984, p. H-25.
9. Joint Economic Committee, Congress of the United States. *Trends in the Fiscal Condition of Cities: 1981-1983.* Prepared for the Subcommittee on Economic Goals and Intergovernmental Policy, 98th Congress, 1st Session, November 1983.
10. Philip M. Dearborn. *The Financial Health of Major U.S. Cities, 1971-1982* Draft, Advisory Commission on Intergovernmental Relations, Washington, D.C., December 21, 1983.

Chapter III

Urban Economies

The foundation of the Administration's urban policy is a sustained economic recovery without the rapid inflation that characterized the 1970's. Economic growth and price stability are fundamental to the continued development of urban areas.

This chapter documents the success of the Administration's efforts to promote sustained economic growth, examines the changes taking place in the economic structure of urban areas and the strengths and weaknesses of urban economies, and describes efforts by all three levels of government to promote the economic health of cities.

Slowdown in Inflation

The most urgent economic problems confronting the Administration when it assumed office in 1981 were runaway inflation and stunted economic growth, a combination called "stagflation." Inflation, as measured by the Consumer Price Index, had steadily increased from 5.8 percent in 1976 to 13.5 percent in 1980.[1] Moreover, the expectation of continued inflation had become firmly entrenched in price and wage decisions. Accelerating inflation reduced net capital formation, productivity incentives, financial stability, and the overall ability of the national economy to generate real growth, while incessantly raising taxes through "bracket creep." Uncertainty and pessimism dominated psychological attitudes of both consumers and businessmen.

Inflation caused particularly severe problems in economically declining urban areas where tax bases lagged behind mounting bills for personnel, equipment, supplies, and fuel. High construction and borrowing costs also generally reduced the ability of State and local governments to maintain and repair public infrastructure.

To counteract these problems the Administration enacted the Economic Recovery Program, designed to decrease government spending, reduce taxes, stabilize monetary growth, and ease regulatory constraints. As the Administration's program took effect, inflation declined so dramatically that, in 1983, prices increased by only 3.2 percent. Fears that runaway inflation would continue have all but ceased, and projected low rates of inflation during the years ahead will provide the basis for a sustained economic recovery.

Among the most successful ingredients of the Reagan Administration's program are the Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982. These Acts substantially improved the economic climate for saving and business investment. Key changes embodied in the Economic Recovery Tax Act of 1981 were the reductions in marginal individual income tax rates, the increased incentives for personal saving, and the reduction in corporate income taxes. The Tax Equity and Fiscal Responsibility Act of 1982 improved the fairness of the tax system while preserving the incentives for work, saving, and investment enacted in 1981. The Act increased tax receipts primarily by eliminating unintended benefits and obsolete incentives, and providing mechanisms to increase taxpayer compliance and improve collection techniques.[2]

These tax changes have played a major role in the current economic recovery. As a result of these changes, the total share of GNP taken by taxes has fallen from 20.1 percent in 1980 to 18.7 percent in 1983. Personal income tax rates have been reduced by a cumulative 23 percent over three years, and the top marginal individual income tax rate was reduced from 70 to 50 percent. Savings were encouraged by the universal extension of eligibility for Individual Retirement Accounts (IRA). As a result of the legal changes, the number of individuals investing in IRA's rose from 6.8 million in 1981 to more than 24 million last year, with the largest gain, 10 million, occurring in 1982 when both working spouses were allowed to contribute up to $2,000. More rapid depreciation coupled with the sharp decline in inflation has significantly increased the after-tax rate of return on business investment, thus substantially improving the climate for business investment. Entrepreneurial activity has spurted noticeably. Estimates are that there may have been a record 600,000 new incorporations in 1983.

These changes have also been useful in generating the recent improvements in labor productivity. From 1977 to early 1982, labor productivity grew very little. It began to increase in the third quarter of 1982 and grew at an average annual rate of 1.8 percent for the last two quarters of 1982. For 1983, labor productivity grew by 3.5 percent per year, one of the fastest rates of increase in a number of years.[3]

Recovery from Recession

Strong economic growth during 1983 went far to erase the effects of the economic recession which began in July 1981 and ended in November 1982. During this period, the Nation's unemployment rate increased from 7.0 to 10.7 percent. Manufacturing jobs declined by more than 2.3 million, and the unemployment rate among blue-collar workers rose to 16.3 percent.

While the effects of the recession spread through cities in all regions, the major impacts were in the older cities that specialize in the manufacture of durable goods, such as steel and automobile products. For example, job losses were greater in the North Central region than in other regions.

Economic recovery began in November 1982. Real GNP turned up in the first quarter of 1983 and registered strong increases during each of the subsequent quarters. By December 1983, employment had increased by four million over December 1982's recession low, and the national unemployment rate had fallen to 8.2 percent. By April 1984, employment had increased by another 1.5 million to a record 104.4 million, and the unemployment rate fell to 7.8 percent. Manufacturing growth has been particularly sharp since March 1983, with durable goods industries, such as transportation equipment, machinery, and electric and electronic equipment accounting for the bulk of the manufacturing gains. (See Exhibits III-1 and III-2.) By December 1983, unemployment rates had declined in both large and small central cities in all regions.

With the Administration's Economic Recovery Program in place, the stage is set for sustained economic growth stimulated by increased savings and private sector investment. State and local governments can complement Federal efforts to maintain economic growth by developing their communities' competitive advantages and attracting private investment to productive activities. It is to be expected that different cities will share in economic recovery at different rates. Cities with economies based on growing industries and population and modern plants have in many cases already overcome the effects of recession and surged to higher levels of activity. Those cities which have been dependent on mature basic industries, and which contain much aging and unmodernized plant, will probably lag in their recovery and require special measures at all levels of government to overcome their specific liabilities. Under conditions of national economic growth, however, most communities will be able to improve their level of performance.

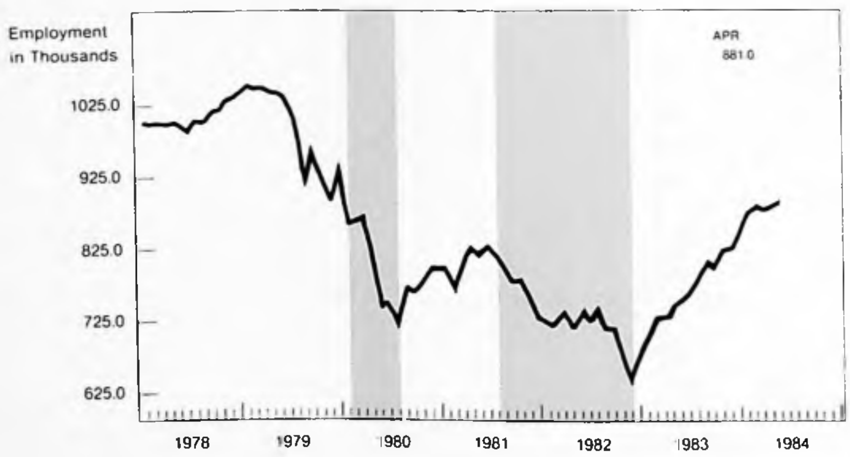
Structural Economic Problems of Cities

A number of the Nation's cities are afflicted by structural economic problems, usually created by a dependence on older, basic industries which have been

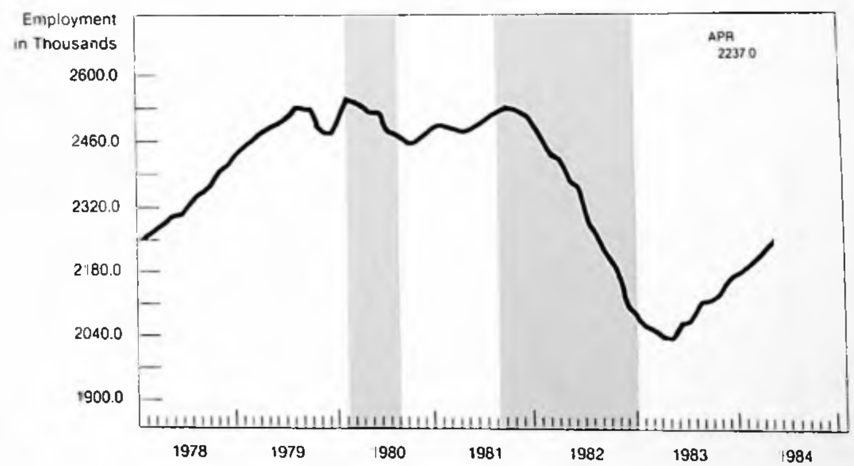
EXHIBIT III-1

Employment in Major Manufacturing Industries, 1978-1984

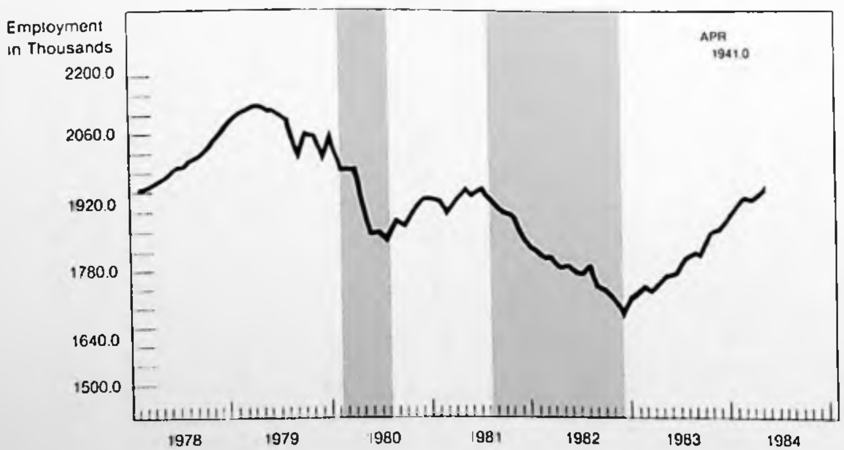
Motor Vehicles and Equipment Employment
Seasonally Adjusted
1978-1984



Machinery Except Electrical Employment
Seasonally Adjusted
1978-1984



Transportation Equipment Employment
Seasonally Adjusted
1978-1984



Electrical Equipment Employment
Seasonally Adjusted
1978-1984

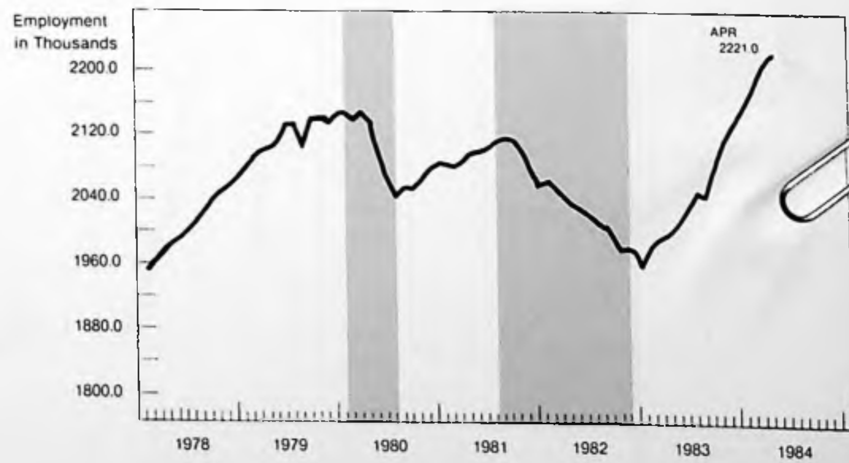
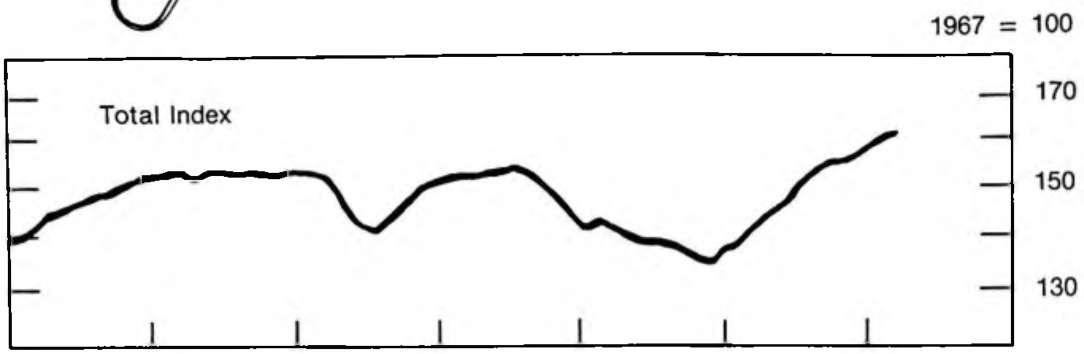
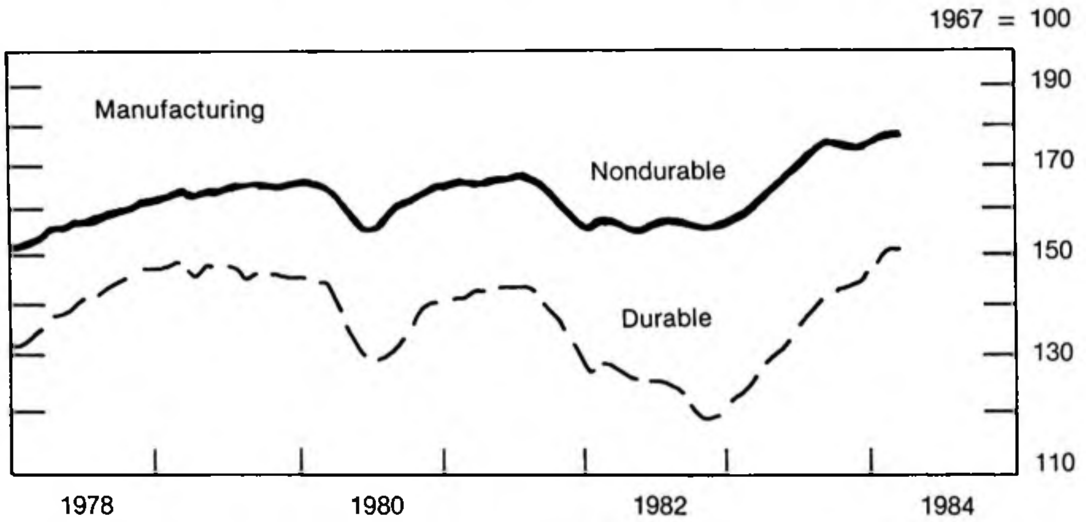


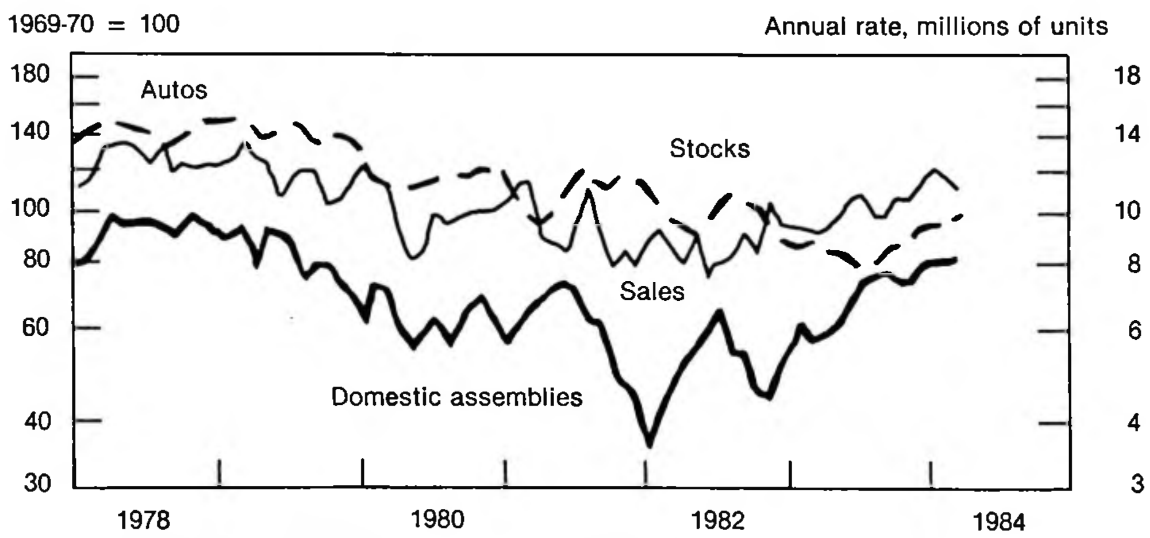
EXHIBIT III-2

Selected Industrial Production Indexes, 1984





Auto sales and stocks include imports. Latest figures: March.



All series are seasonally adjusted and are plotted on a ratio scale.

Source: Federal Reserve Bulletin, April 1984, page 286.

adversely affected by shifts in consumer preference, development of new technologies, labor cost disadvantages, and other competitive pressures. Frequently those cities find their economic adjustments inhibited by obsolete plant and an unwillingness of companies to reinvest instead of building new plants in other locations. Such structural problems have led, over the past few decades, to declines in work forces, property values, and the overall economies of these cities—especially, but not exclusively, in areas such as the Midwest and Northeast. However, these declines of individual cities have occurred in the context of a remarkable show of strength by the Nation's overall manufacturing base. Discounting cyclical peaks and valleys, the manufacturing sector has shown both underlying strength and indications of resurgence, based on increasing modernization of older industries and continuing leadership from high-technology firms. In addition, many cities have shown an ability to attract and give birth to service industries to replace employment losses in manufacturing.

The Administration does not believe that any city is condemned to inevitable decline. In the case of cities experiencing severe structural problems, the Administration has not only kept existing programs targeted to aid such cities, but has developed and promoted new ones, such as Enterprise Zones, to enable cities to make the needed adjustments to provide them, eventually, with stable, growing economic bases.

Trends in Manufacturing Employment

In the 1960's and 1970's the number of workers employed in manufacturing increased slowly, and manufacturing's share of total output remained relatively stable at just under 25 percent. While the aggregate figures were stable, however, both within and around the manufacturing sector, there were major shifts in employment patterns. Manufacturing's relative share of total U.S. employment declined from 31 percent in 1960 to 22 percent in 1980. Employment in high-technology industries increased relative to capital- , labor- , and resource-intensive industries.[22] (See Exhibits III-3 and III-4.) (High-technology industries are those with high research and development expenditures relative to the value of what they produce.)

The slow growth of manufacturing employment relative to employment in other sectors has resulted from several factors, including (1) a shift in consumer demand away from manufactured goods as income rises; (2) increases in manufacturing productivity; and (3) intensified international competition in manufacturing. Recent sluggish growth in the world economy has also affected U.S. manufacturing employment. Employment shifts to high-technology industries reflect shifts in consumer preferences as well as export opportunities. The stability of the overall production and employment figures within the context of these many changing factors underscores the continued strength of the Nation's manufacturing sector. However, these changes have necessitated major adjustments by workers and communities faced with the loss or contraction of some jobs and industries and the emergence and growth of others. Not all workers and all communities have been equally capable of making these adjustments and responding to new competitive opportunities.

A closer look at the types of manufacturing jobs that

EXHIBIT III-3

Size and Share of U.S. Manufacturing Sector, 1960-1980

	Manufacturing		Share of Total	
Year	Output (billions of 1972 dollars)	Employment (millions)	Output	Employment
1960	$171.8	16.8	23.3%	31.0%
1970	261.2	19.4	24.1	27.3
1980	351.0	20.3	23.8	22.4

Source: U.S. Council of Economic Advisers, *Economic Report of the President,* February 1984, Table 3-1.

EXHIBIT III-4

Shares of Value Added and Employment in U.S. Manufacturing by Industry Group, 1960-1980

(Percent of manufacturing total)

	Value Added			Employment		
Group	1960	1970	1980	1960	1970	1980
High-technology	27	31	38	27	30	33
Capital-intensive	32	30	27	29	29	28
Labor-intensive	13	13	12	21	20	19
Resource-intensive	28	25	23	23	21	20

Source: Robert Z. Lawrence, "Is Trade Deindustrializing America? A Medium Term Perspective," *Brookings Papers on Economic Activity: 1,* Washington, D.C.: Brookings Institution, 1983, Table 2.

central cities have been losing will clarify the problems faced by older industrial cities. A recent study of the largest urban areas showed that cities such as St. Louis, Cleveland, Buffalo, and New York experienced some of their largest employment losses in low-skill industries, such as apparel, textiles, leather goods, and furniture.[5] This simply confirmed a historical tendency of older industrial centers to lose less-skilled, labor-intensive jobs to areas with lower wages. Relocation of mill industries from New England to the Carolinas provides an early example of this dispersion effect; the increasing tendency of consumer electronic goods to be assembled abroad provides a more recent example.

In addition to losses in their low-skilled industries, industrial cities also suffered major job losses in higher paying basic industries, such as primary metals (steel), fabricated metals (machine tools), and transportation (automobiles).[6] Higher U.S. labor costs, foreign competition, obsolete plants, and increased energy costs are reasons frequently cited for these losses.[7] However, some of those job losses have been reversed by the current economic recovery, particularly in automobiles.

Although manufacturing job losses during the 1970's were substantial in some major cities, manufacturing continues to play an important role in urban areas. As indicated on Exhibit III-3, many major industries in the manufacturing sector have overcome their recessionary troughs and have regained levels of employment approaching previous highs. The American automobile industry, for example, has led a resurgence of production and employment. Industries which looked as if they would never recover when the overall economy was undergoing bouts of "stagflation" have shown resilience in a healthy economy. The Federal Reserve's index of industrial production in February 1984 was 3.9 percent above its previous high in July of 1981 (see Exhibit III-4). Production is approaching or exceeding previous highs in almost all types of manufacturing, durable and nondurable.

While increased automation and growing use of high technology and robotics make it unlikely that many of the basic industries, such as auto and steel, will ever require the same size labor force relative to production as in previous decades, it is also clear that they will be able to provide a continuing base of employment in urban areas. This ability will be greatly enhanced by measures being taken in those industries to increase their competitiveness, from use of production robotics in the auto industry to modernizing furnaces, expanding use of continuous casting, or in some cases even shifting to finished product production and using foreign-produced ingots in the steel industry. What is important to the Administration in this atmosphere of resurgence and increasing competitiveness is to encourage all cities to participate as fully as possible and to help cities suffering from disinvestment and obsolete plant either to modernize or shift their economic bases according to local situations.

Many cities in all sections of the country have been especially successful in attracting and developing new industries. These cities have capitalized on their special strengths to develop successful economic development strategies. Dallas, Houston, San Jose, and Phoenix have experienced substantial growth in high-technology industries, such as nonelectric machinery, electric equipment, and instruments; approximately half of their manufacturing employment is concentrated in high-technology sectors. Philadelphia has moved from its old heavy-industry base to a mix of lighter industry and service industries, such as banking and merchandising. Boston took advantage of its great universities and a skilled labor force, which gave the city a competitive advantage in the design of sophisticated computers and instruments. Dayton, Ohio, which has suffered substantial employment losses in industries such as cash registers, refrigerator motors, and printing presses, is using its location near several colleges and a major Air Force base to attract high-technology firms. Other cities with similar resources are considering switching to high-technology products.

Trends in Nonmanufacturing

Another major opportunity for expansion of jobs in urban areas is in office services (finance, data processing, headquarters offices, accounting, corporate law), health services, specialty retail services, tourism, arts and cultural services, and education. Nationally, these services have been growing very rapidly, and they tend to concentrate in urban areas.[8] For example, 43 percent of the Nation's employment in legal services and 37 percent of its employment in banking are concentrated in 34 of the largest urban counties.

Office services and corporate headquarters have exhibited strong growth in many of the older urban areas that have been losing jobs in other industries. Cities such as New York, Chicago, and Boston have developed strong office sectors and are major centers of national and international finance. Being the headquarters location for major manufacturing firms has assisted large industrial cities, such as Pittsburgh (steel), Minneapolis (electronics), and Rochester (scientific and office equipment), in building strong office industries. [9]

A recent study of the largest economically declining urban areas shows that their finance industries grew by 15 percent between 1967 and 1979, and even higher growth rates were exhibited in their legal (82 percent), business (41 percent), health (65 percent), and education (37 percent) industries. In the context of their 27 percent loss of manufacturing jobs during this period, these gains are quite impressive. [10] They indicate that, despite a diminished population and job base, many of the older urban centers are showing considerable strength in adapting their economies to offset deterioration of their manufacturing and trade industries.

Of course, growth of office services in central cities may not continue at the same pace in the future. Many administrative and auxiliary (e.g., research and development) functions of major firms are being decentralized to suburbs. One reason for this shift seems to be the contracting supply of clerical workers in central cities and the growing supply in the suburbs. Central city "push" factors, such as high taxes, congestion, poor schools, and crime, also seem to be important contributing factors. [11] In addition, advances in data processing have dispersed the "back office" activities of many financial firms to small cities in nonmetropolitan areas. [12]

Some cities have made the transition to a service-based economy more easily than others. Among larger cities, national and regional centers such as New York, Boston, Philadelphia, Atlanta, and New Orleans have been more successful than manufacturing-based areas such as St. Louis and Detroit, which started with a lower level of finance and service employment and expanded at a slower rate.

To sum up, cities have had different degrees of success in dealing with their structural problems. The Administration has maintained several economic development programs to aid cities in adapting to these changes; they are discussed below.

Federal Actions to Promote Urban Economic Development

Enterprise Zones

The Administration's proposed Enterprise Zone legislation (H.R. 1955, S. 863) provides both encouragement and incentives for the public and private sectors to work together in revitalizing distressed areas and creating jobs.

The concept behind the legislation is to create an environment in a distressed area conducive to stimulating business activity and stabilizing or increasing employment for zone residents and others. State and local governments may offer tax or regulatory incentives, or perhaps additional services in the area or improvement of the infrastructure conditions.

As a result of the Administration's focus on the concept, this experimental approach is already being tried by almost half of the States through their own Enterprise Zone programs.

The Federal Enterprise Zone legislation provides tools that can be used to complement State and local efforts to improve the economic development process, regardless of whether they have enacted their own State legislation. To nominate a distressed area for Federal Enterprise Zone designation, a State and local government must identify impediments to economic activity in a zone and formulate a strategy to remove those impediments. This strategy must include commitments from both State and local governments. The legislation also strongly encourages contributions from the business community, such as financial and technical assistance and training for employers and employees. It encourages participation by zone residents in the economic success of the zone, as entrepreneurs, job holders, or as part of a plan by which residents share in whatever increased equity accrues to the zone.

In addition to this process for formulating a strategy and a collection of local incentives, the Federal legislation provides a powerful package of Federal tax and regulatory incentives. To stimulate job growth and training opportunities, particularly for disadvantaged individuals, the bill offers tax credits to employers who increase payrolls and hire disadvantaged and long-term unemployed individuals. To encourage business investment, growth, and the flow of capital into the zones, the bill provides tax credits for investment in zone personal property and real estate in addition to those credits already provided in the tax code, and exempts capital gains from taxation. The bill also provides for expedited treatment of applications for establishing Foreign Trade Zones within Enterprise Zones. To lessen the cost and time burdens of some Federal regulations, the bill permits jurisdictions containing federally designated Enterprise Zones to request the waiver or modification of regulations if such waiver or modification would not violate a statute or adversely affect health and safety. Regulations adopted to carry out statutes and Executive Orders which prohibit discrimination may not be waived or modified.

Enterprise Zones present exciting opportunities to revitalize distressed areas throughout the Nation and to create or retain jobs where they are most needed.

Urban Development Action Grants

Under this Administration, the Urban Development Action Grant (UDAG) program was refocused toward its original stated purpose—stimulating economic development and creating jobs in distressed areas. This program makes discretionary grants to distressed cities to stimulate economic recovery. The UDAG program is a good example of a Federal program that embodies a number of the key components of the Administration's urban policy: the program seeks to maximize local government and private sector control and discretion, and complements private sector efforts. It is targeted to distressed areas, and it results in permanent job creation through business investment.

The Administration sharpened the program's focus on economic development by directing that project selections place a greater emphasis on job creation and fiscal benefit.

Over the last three years, 1,254 projects involving $1.731 million of action grant funds received preliminary application approval, with FY 1983 accounting for the largest number of projects (537) approved in the six-year history of the program. These projects account for 208,930 planned new permanent jobs and a projected $280 million additional annual tax benefits.

In an attempt to make the UDAG program more responsive to communities experiencing long-term high levels of unemployment, the Administration added location in a Labor Surplus Area as a distress criterion for establishing eligibility. This change was particularly aimed at smaller communities for which specific and reliable measures of structural unemployment are not available. The change gives one eligibility point to large cities and urban counties that are designated as Labor Surplus Areas (LSA's) by the Department of Labor and one eligibility point to small cities if the county or county balance in which they are located is a designated LSA. An area receives an LSA designation if its unemployment rate exceeds 120 percent of the national average unemployment rate over the previous two years.

This action makes 14 more large cities and urban counties and approximately 1,800 more small cities eligible to participate in the UDAG program.

The Administration also initiated a concerted effort to increase the participation of small cities in the UDAG program. These efforts involved a variety of outreach activities by HUD Field Offices designed to inform local government officials about how action grants can be used; they also funded private contractors, such as Halcyon, the Mexican-American Research Center, the National Development Council, the National Association of State Development Agencies, and McManus Associates, who conduct workshops and give technical assistance in preparing applications to a number of individual communities.

The combination of these outreach activities contributed to a record number of new applications from small cities for consideration in the four competitive funding rounds of FY 1983. For these rounds, small cities submitted slightly more than 600 new UDAG applications as compared to just over 350 during the four FY 1982 rounds. The total number of small city applications

receiving preliminary application approval rose from 117 during FY 1982 to 233 in FY 1983, and the UDAG dollars for these announced projects increased from $66 million in FY 1982 to $170 million in FY 1983. As a consequence, the carryover of the small city set-aside declined by $36 million during FY 1983.

Community Development Block Grants

The Community Development Block Grant (CDBG) program is also playing a key role in helping cities to adjust to their changing economic situation. In 1983, the entitlement portion of the CDBG program provided $2.4 billion to central cities, suburban cities with over 50,000 population, and 96 large urban counties. A recent HUD study showed that CDBG funds are highly targeted to distressed and needy cities. In Fiscal Year 1984, the most distressed 10 percent of cities are projected to receive 3.7 times more in per capita funding than the least distressed 10 percent.

The Administration has increased the economic development emphasis of the CDBG program by adding the direct support of for-profit organizations as an eligible activity. This action stimulated a variety of innovative approaches not previously available. In addition, the Administration has restored decisionmaking authority to local governments by substantially reducing program regulations and replacing a detailed application process with a statement of proposed uses.

The quality of life in a city is increasingly recognized as an important determinant of firm relocation decisions. A major concern of office and service firms when considering a possible move is whether or not the candidate city will be attractive enough for its white-collar employees. For this reason, use of CDBG funds to reduce crime and rehabilitate deteriorated neighborhoods is an integral part of a city's economic development program.

The combination of reduced restrictions on dealing with private business, greater flexibility in activity location, and generally broader choice has resulted in more innovative approaches to economic development with CDBG funds. For example, Houston has entered into CDBG economic development activities for the first time by providing public improvements in the city's newly created tax-increment finance district and by supplementing its industrial revenue bond program. Imaginative ways are being found to use CDBG funds as a base for short-term loan programs to the private sector to support economic development activities and to finance closely related public improvements. In Atlanta, for instance, loans provided public improvements for a large industrial park currently under development. In Cleveland, a revolving loan fund aided revitalization of a former warehouse district by financing acquisition and renovation of vacant warehouse structures. In Phoenix, financing of a major downtown residential and office development was leveraged at better than a 10 to 1 ratio with a loan from CDBG funds. Interim financing of construction in economic development activities was provided in Seattle.

CDBG Technical Assistance

CDBG-funded technical assistance (TA) projects help State and local governments through dissemination of information on successful community and economic development projects and through direct provision of assistance. Nearly $20 million was allocated for this purpose in FY 1983. Some TA projects provide assistance to cities with significant minority populations to develop and manage CDBG projects that benefit minorities. The National Development Council is now working with Governors in 40 States to establish Small Business Revitalization Corporations to increase the availability of private financing to small- and medium-sized businesses and to achieve CDBG and UDAG economic development goals. HUD has entered into an interagency agreement with the Small Business Administration (SBA) to promote innovative use of CDBG, SBA, and other public and private resources in economic development projects. As of February 1984, 1,189 businesses with $1.7 billion in loan requests were in process under the program. Of these, 536 businesses had received loan approvals of $741 million. The approved projects will support approximately 30,000 jobs. Other projects, too numerous to mention, focus upon energy conservation, low- and moderate-income housing development, links between economic development and employment programs, involvement of neighborhood organizations in the provision of municipal services, and related community development activities.

Small Cities CDBG Program

As part of its federalism initiatives, the Administration requested that Congress give States the option of running the CDBG Small Cities program. This program distributed $1 billion to smaller communities (below 50,000 population) in Fiscal Year 1983. Thirty-six States and Puerto Rico undertook the program in its first year; 46 States did so in the following year. They were free to design and organize the program as they chose within the three broad national objectives of the CDBG program.

Transfer of the program to State administration has been very successful. States have chosen their own objectives, designed their own programs, and selected grantees—all within a relatively short period of time. Generally, local governments were significantly involved in design of their State's program and have responded positively to its implementation and outcomes, comparing it favorably to the prior HUD-run program along several dimensions.

One of the clear differences between the program as administered by State officials and the program as previously administered by HUD has been the increased attention to economic development projects. Under the new State-administered Small Cities Program, 44 of the 47 States administering the Small Cities Program designated economic development as a priority area for funding in FY 1983. In 1981, only four percent of the funds awarded to small cities by HUD were for economic development. In fiscal years 1982 and 1983 under the revised program designed by State agencies in consultation with local officials, the funding for economic development projects increased more than three-fold to 14 percent and 15 percent respectively. Furthermore, these funds are reaching into communities that had received little prior assistance from HUD. For example, in FY 1983, more than one-half of these funds have been granted to very small communities with less than 10,000 population and 83 percent to cities with less than 25,000 population.

Small Business Financial and Management Assistance

The Small Business Administration offers both financial and management assistance to small businesses. In its most common form of financial assistance, SBA guarantees loans made by private lenders, thereby reducing their risk. In FY 1983, SBA guaranteed over 17,000 loans for a total of $2.6 billion. It also makes direct loans to applicants who are unable to obtain private or SBA-guaranteed financing. In FY 1983 SBA made over 2,000 direct loans for a total of $150.7 million.

SBA finances investment entities specializing in small business loans. These include 360 Small Business Investment Companies (SBIC's) which provided a total of $397.7 million to small businesses in over 2,500 separate business transactions in FY 1983; and Minority Enterprise Small Business Investment Companies (MESBIC's) which provide specialized assistance to small firms owned and operated by socially or economically disadvantaged persons in business, and which provided $54.9 million in 813 separate financings in FY 1983. Another tool used by SBA to promote economic development, create jobs, and increase the involvement of private lenders in regional and local economic development projects is the Certified Development Program. This program provided $296 million in guarantees to Certified Development Corporations (CDC's) and State and local governments in over 1,400 transactions in FY 1983.

SBA also provides management assistance to small firms or to individuals wishing to start their own businesses. Twenty-six Small Business Development Centers (SBDC's) operate in conjunction with academic institutions to assist, train, and counsel small business owners. Other management assistance programs make the advice of business administration students and faculty and retired and active executives available to small businesses.

In other activities, SBA assists in directing Federal prime contracts and subcontracts to small business, either by government or private contractors. It is also working with public and private resources to produce partnerships that benefit the small business community. All of these activities recognize the critical importance of small businesses in the Nation's economy and in community and economic development.

Job Training Partnership Act of 1982

The Job Training Partnership Act (JTPA) replaces the Comprehensive Employment and Training Act (CETA) Program and includes a number of Administration initiatives that encourage business and State and local governments to work together to train disadvantaged and dislocated workers. It contains a number of innovative features that will lead to more effective training for unemployed workers.

Under JTPA, general Federal assistance to States for training has been consolidated into a block grant of $1.9 billion, and States and local areas are given discretion to use the resources to address their most pressing training and employment problems. Directing resources to States permits increased coordination with other programs, such as vocational and adult education, which are already the responsibility of State governments. Although few restrictions are included in the Act, 70 percent of the grant amount must be used for training. In the past, an average of only 18 percent of Federal training aid went for training, with the remainder being spent on income transfers, administration, and various support services.

Under JTPA, States designate local service delivery areas (SDA's) with populations of 200,000 or more. Each SDA must establish a Private Industry Council (PIC), which comprises business, government, education, labor, and other local representatives, to design and implement training programs for the disadvantaged. Unlike earlier training programs, business representatives are equal partners with local governments in operating local training programs. Cooperation of the private sector will ensure that disadvantaged people are trained for real jobs.

JTPA also authorizes a new program of grants to States to help them assist dislocated workers who are unlikely to return to their previous jobs or occupations. Such workers can be helped into new fields of endeavor through identification of alternative occupations that fit their skills, training in new skills for which demand exceeds supply, assistance in finding suitable new jobs, and payment of the costs of a worker's move to a new location for a job. As a result of the Administration's budget proposal last year, $233 million is now available in 1984 to provide assistance to approximately 96,000 dislocated workers. A State match of Federal resources is required for most of these grants.

The Administration's efforts to decentralize authority in major urban aid programs from the Federal Government to State governments is reflected in the new roles that States are now playing in the CDBG and job training programs.

Youth Employment Programs

About 40 percent of block grant funds under the Job Training Partnership must be spent on economically disadvantaged youth between the ages of 16 and 21. In addition, States receive grants to operate summer youth employment and training programs. In FY 1984, $725 million is provided to employ about 718,000 economically disadvantaged youth between the ages of 14 and 21.

Two other programs with the aim of reducing youth unemployment are the Job Corps and the Targeted Jobs Tax Credit. The Job Corps serves economically disadvantaged youth in a residential setting. Under the program, a national system of 107 residential centers in 43 States provides basic education, vocational training, counseling, health care, and similar services to disadvantaged young men and women between the ages of 16 and 21 to prepare them for jobs and responsible citizenship. Enrollees may stay in the Job Corps as long as two years; at the end of their stay, they are given assistance in finding a job. The 107 centers have a capacity of about 40,000, but can serve about twice that number each year, as the average length of stay is about six months.

The Targeted Jobs Tax Credit (TJTC) is available to private employers who hire employees from targeted groups. Employers receive a credit of 50 percent of first-year wages up to $6,000 per employee and 25 percent of second-year wages up to $6,000. This means a maximum allowable credit of $3,000 per employee for the first year and $1,500 for the second. The targeted groups include youth between the ages of 18 and 24 from economically disadvantaged families; almost 260,000 were certified for the credit and found jobs in FY 1983. Also served are youth between the ages of 16 and 19 from economically disadvantaged families who participate in a qualified cooperative education (i.e., work-study) program. (Other TJTC targeted groups include recipients of Supplemental Security Income, Aid to Families With Dependent Children, and State and local general assistance, handicapped persons, felons, and economically disadvantaged Vietnam-era veterans.)

The major task now is to remove government-imposed barriers which prevent youth from getting needed work experience. The President is urging Congress to enact a Youth Employment Opportunity Wage (75 percent of the regular minimum wage) which will enable employers to expand job opportunities for youth.

Under a new Summer Youth TJTC program, a credit of 85 percent of up to $3,000 in wages is paid to employers who hire economically disadvantaged youth who are 16 or 17 years old for summer jobs. In FY 1983, the first year of this program, over 33,500 youths were certified for the credit and found jobs.

The Minority Youth Training Initiative (MYTI) is a demonstration program developed by the Department of Housing and Urban Development to make creative use of the opportunities provided through the Job Training Partnership Act. MYTI is intended to coordinate job training opportunities provided through HUD-assisted programs with JTPA funds available to local communities. Minority youth in 20 cities will be provided

with training in housing management and maintenance. Cities, working with their Private Industry Councils established under the JTPA and with their public housing authorities, are developing programs and curriculums in housing management and maintenance attuned to the needs of their local job markets. HUD has provided funds under the Comprehensive Improvement Assistance Program to each of the participating public housing authorities, and has provided technical assistance through a national contractor.

State and Local Economic Development Efforts

State Governments and Local Economic Development

State governments have traditionally been involved in many economic development programs, including manpower training, promotion of industrial growth, international trade development, and minority business development. Recently, they have begun to play an even greater role in the development of policies to alleviate local economic distress. State-administered programs to encourage private investment increased dramatically during the latter half of the 1970's. [13] More important, these State programs were often designed with the help and support of city officials.

State governments have used several creative techniques and innovative programs to stimulate development in urban areas, including (1) incentives to business development (e.g., industrial revenue bonds, direct loans, land banking, and training); (2) building local capacity (e.g., technical assistance, tax increment financing, and economic development corporations); and (3) coordinating State development (e.g., targeted capital investments and business ombudsman programs). States are also recognizing the importance of identifying the State's or city's competitive advantages before deciding on a particular policy. They are beginning to avoid the "smokestack chasing" approach to development and, instead, encouraging the kinds of businesses that are likely to benefit from urban locations.

Rarely have State and local governments experimented with such a diversity of incentives as they are now doing through their Enterprise Zone programs. [14] For instance, Connecticut's Enterprise Zone legislation, designating six development zones, provides for such innovative features as a venture capital loan fund for small businesses, a sales tax exemption for the purchase of spare or replacement parts, a 50 percent State corporate income tax credit, and employment training vouchers. Maryland provides loan guarantees from a Venture Capital Guarantee Fund, and Florida provides loans and grants to CDC's in State Enterprise Zones. Also, within some 400 potential zones in the State, Louisiana provides exemptions from State income, sales, and franchise taxes for purchase of plant and equipment; and Ohio provides sales tax exemptions and permits property tax abatement. [15]

Competitive Advantages of Urban Areas

Recognizing that transformation of urban economies is likely to continue, and possibly accelerate, during the 1980's, local officials and community leaders are interested in identifying types of businesses likely to find their cities profitable places to locate. They are reassessing their economies to identify competitive advantages as a basis for their economic development strategies. [16] For instance, the City of Philadelphia recently cooperated with private sector and community groups in a process of debate and education designed to promote informed policies concerning Philadelphia's future. The economic development component of that project—which was called "Philadelphia: Past, Present, and

Future"—focused on how the national shift toward services has affected the future prospects of Philadelphia's economy and, in that context, what local development strategies were appropriate. The Cleveland Foundation was the primary sponsor of a similar study of Cleveland's economy. That study analyzed past trends in Cleveland's industries to determine which were competitive enough to emphasize in the future.[17]

Need for Flexibility

Several characteristics of recent efforts by cities to develop strong economic development policies show clearly why the Administration has emphasized giving local governments maximum freedom to respond to their own diverse needs and opportunities. First, it is clear that no single "grand" strategy will be successful in today's urban economy. Compared with traditional industrial development strategies that focused on attracting and retaining large factories, local strategies in today's service-based economy are concerned with a much wider and more complex range of opportunities, from encouraging growth in specialty retail shops to training a labor force suitable for office services and high-technology manufacturing. There is no single strategy for promoting these different types of activities.

Moreover, given the rapid pace of technological change and the high mobility of capital in today's economy, cities are undergoing a continuous process of adjustment to change. Developing a long-term strategy that will ease these adjustments often requires emphasizing a different set of factors than was emphasized during the earlier industrial era. For instance, the quality of life in a city—rather than a location near natural resources—appears increasingly important in attracting new, white-collar, office industries.[18] Baltimore, for example, attracted office industries by improving its retail and commercial trades sectors. A high-quality labor force will ease the adjustment to technological changes. Educational systems, especially colleges and universities, play ever-growing roles in local development strategies as sources of entrepreneurs and skilled workers. Essentially, the transformation toward office and other knowledge-intensive activities means that local development policies are becoming more oriented toward attracting and training people.

Some cities are anticipating the future needs of their service industries by strengthening telecommunications facilities. For example, New York City is promoting an economic development project on Staten Island called Teleport, in conjunction with the Port Authority of New York and New Jersey, Merrill Lynch, the Western Union Telegraph Company, and other private-sector firms. This 10-year, $300-million, public-private effort will serve the region's information industry and retain businesses and jobs. The project includes development of an office park to house "back office" (e.g., computer-related clerical) operations and an advanced telecommunications network employing fiber optics and satellite technologies for intraregional and long-distance communications.[19] Another teleport is under construction in the San Francisco area by a private developer. In Columbus, Ohio, two computer data banks and Ohio State University plan to spend $4 million on a teleport aimed at the area's high-technology industries.[20] Developers in Dallas, Chicago, and several smaller cities already have plans or projects underway for smaller scale efforts to link real estate developments and advanced telecommunications.[21] Projects such as these are providing cities with the infrastructure needed to attract and retain communication-based economic activities.

Another characteristic of recent local strategies is the increasing attention paid to small businesses. In the past, cities have often used their economic development funds to attract large factories from other States. However, recent research has shown that plant relocations by large firms account for only a small proportion of employment change. Furthermore, interstate plant relocations are influenced more by overall demand (e.g., market potential) and supply (e.g., wage rates and unions) than by factors (e.g., local taxes) under the control of local officials. In contrast, the birth and expansion of small businesses account for a major portion of local employment changes and can be influenced by local policies.[22] Therefore, local officials are concentrating on the retention of existing firms and promotion of small businesses headed by local entrepreneurs. Examples of such policies include land assembly to provide space for expansion, financial assistance for startup firms, and "one-stop shopping" programs to ease the red tape and burden associated with local regulations.

Notes

1. U.S. Council of Economic Advisers. *Economic Report of the President.* Washington, D.C., February 1984, Table B-55.
2. U.S. Office of Management and Budget. *Budget of the United States Government, FY 1985.* Washington, D.C., 1984, p. 4-5.
3. *Economic Report of the President, op. cit.,* p. 186-189.
4. Robert Z. Lawrence. "Is Trade Deindustrializing America? A Medium-Term Perspective," in *Brookings Papers on Economic Activity.* Washington, D.C.: The Brookings Institution, 1983, pages 130-131.
5. Harold Bunce, Bob Benjamin, and Sue Neal. "Recent Economic Trends in Large Urban Areas." Unpublished HUD paper, 1983.
6. *Ibid.*
7. For a discussion of plant shutdowns in basic industries, see Barry Bluestone and Bennett Harrison, *The Deindustrialization of America: Plant Closings, Community Abandonment, and the Dismantling of Basic Industry.* New York: Basic Books, Inc., 1982, pages 36-37.
8. The industrial specialization of cities and the recent shift of the national economy toward services is discussed fully in Thomas M. Stanback, Jr., and Thierry J. Noyelle, *Cities in Transition.* Totowa, N.J.: Allanheld, Osmun & Co., 1982, pages 7-35.
9. This discussion of the role of services in transforming the economies of older industrial cities is based on Thierry J. Noyelle and Thomas M. Stanback, Jr., *Economic Transformation in American Cities: A Study of Processes with Implications for Development Policy.* This report, prepared for the U.S. Department of Commerce, October 1981, documents the important role of producer services in urban economies.
10. Bunce, *et al., op. cit.*
11. Harry W. Richardson, 1978. "Basic Economic Activities in Metropolis," in *The Mature Metropolis,* edited by Charles L. Leven. Lexington, Mass.: Lexington Books, p. 251-277.
12. Joseph F. Coates. "New Technologies and Their Urban Impacts," in *Cities in the 21st Century,* edited by Gary Gappert and Richard V. Knight. Beverly Hills, Calif.: Sage Publications, 1982, p. 177-195.
13. This discussion of recent changes in the role of State governments in local economic development is based on Lawrence Malone and Robin Erdmann, *State Development Programs: A Catalogue.* Council for Urban Economic Development, 1981.
14. This discussion of the early experiences of State and local governments with Enterprise Zones is based on Alan S. Gregerman and Jeffrey M. Pyle, "Local Enterprise Zones: Testing a New Development Tool," in *Economic Development Commentary,* National Council for Urban Economic Development, Summer, 1983, p. 4-10.
15. These findings were taken from "Survey of State Enterprise Zone Performance," testimony by Mack Frazier (Director of Public Policy Programs, Sabre Foundation) before the House Ways and Means Committee Hearings on Tax Incentives for Distressed Areas, November 17, 1983.
16. For discussion of the determinants of a city's competitive advantages, see George A. Reigeluth and Harold Wolman, *The Determinants and Implications of Communities Changing Competitive Advantages: A Literature Review.* Washington, D.C.: The Urban Institute, 1981.
17. Aaron S. Gurwitz and G. Thomas Kingsley. *The Cleveland Metropolitan Economy.* Prepared for the Cleveland Foundation. Santa Monica, Calif.: The Rand Corporation, 1982.
18. The role of city amenities in the economic revitalization of cities is emphasized by Richard V. Knight, "City Development in Advanced Industrial Societies," in *Cities in the 21st Century,* edited by Gary Gappert and Richard V. Knight. Beverly Hills, Calif.: Sage Publications, 1982, p. 54-68.
19. Robert O'Connell, Andrew Silton, and Roger Vaughan. "Telecommunications: The New Urban Infrastructure." *Commentary* (Spring 1982), pp. 3-8. See also George Beckerman, "The Teleport: Telecommunications and Urban Growth." *Commentary* (Spring 1982), p. 10-15.
20. Michael Wines. "Teleports May Be the Newest Threat to Bell Companies' Local Dominance." *National Journal* (November 12, 1983), pp. 48-52.
21. O'Connell *et al., op. cit.*

22. The conclusion that the interstate migration of business has relatively little impact on regional employment changes has recently been questioned by some researchers. Harrison and Bluestone, *op. cit.,* argue that shifts of capital—rather than the physical movement of establishments—by large, multiestablishment corporations and conglomerates have played an important role in the employment losses of declining areas. Their conclusion on corporate disinvestment was supported by a recent study of changes in manufacturing employment in the Chicago SMSA; this study was entitled "Corporate Disinvestment: An Empirical Examination of Capital Shift, " by Robert G. Sheets, Kenneth P. Voytek, and Russell L. Smith, (unpublished, 1983).

Chapter IV

Urban Social Conditions

This chapter summarizes recent demographic trends affecting the economic and social well-being of urban residents. It describes steps taken by the Administration to achieve the following goals: to target assistance to needy households, to give State and local governments greater flexibility in meeting human service needs, to improve the quality of education, and to reduce crime and improve law enforcement.

Poverty, crime, and lack of education are three interrelated problems of urban areas. Lack of education leads to lower incomes, and the urban poor are hardest hit by crime. This chapter assesses, wherever possible, the impact of the Administration's actions on States and localities and also discusses State and local initiatives in the areas of social services, education, and crime prevention.

Recent Demographic Trends

To the extent that demographic trends can be updated since 1982, they indicate that the basic patterns recorded in the 1982 National Urban Policy Report have continued. Population movements are generally to the South and West, and from central cities to suburbs and nonmetropolitan areas. The following items update population trends reported in the *1982 National Urban Policy Report:*

The Nation's population is increasing in the 1980's at rates comparable to the 1970's. U.S. population totaled 232 million in 1982, about 2.2 percent more than in 1980.

Immigration continued to decline in 1982. Net civilian immigration to the United States during 1982 was 280,000 compared with 520,000 in 1981 and 654,000 in 1980. The higher levels of net civilian immigration during 1980 reflected the large numbers of Cuban, Haitian, and Indochinese refugees admitted; during 1981 a substantial number of Indochinese were admitted, but the flow of Cubans and Haitians had virtually stopped.

The most rapidly growing region in the period from 1980 to 1982 was the West (4.3 percent) followed closely by the South (3.7 percent). Three States—California, Texas, and Florida—accounted for well over half of the estimated population growth. Well below the national average of rate of growth were the Northeast (0.7 percent) and the North Central region (0.1 percent). Ohio, Indiana, Missouri, West Virginia, and Michigan all lost population in the early 1980's.

The U.S. in the 1980's continues to be largely a metropolitan Nation with the bulk of population growth concentrated in the suburbs. Some two-thirds of the national population growth of the 1970's occurred in metropolitan areas, but almost exclusively outside of central cities.

The 10 fastest growing metropolitan areas for the 1970's were all located in the West or South. Some 29 metropolitan areas declined in population during the 1970's. All but one of these were in the Northeast or North Central states. Those metropolitan areas with population loss in the 1970's include some of the largest ones—New York, Boston, Philadelphia, Buffalo, Pittsburgh, Cleveland, Detroit, Milwaukee, and St. Louis—generally older industrial cities undergoing structural change.

Nonmetropolitan population growth is continuing in the 1980's. After small declines during the 1950's and 1960's, the nonmetropolitan population in the U.S. increased from 53.6 million in 1970 to 59.5 million in 1980, the largest numerical increase since the 1870's. This movement to nonmetropolitan areas does not reflect a return to the farm. Farm population during the decade declined by 25 percent and in 1980 numbered about six million persons.

Metropolitan residents continued to decentralize in the early 1980's, gradually moving away from densely inhabited central cities into suburbs and nonmetropolitan areas.

Income and Poverty

Widening Central City-Suburban Income Differentials

Between 1970 and 1982, income differentials between central city and suburban residents continued to grow.[1] The median income of central city families fell from 99 percent of the 1970 national median income to 93 percent of the 1982 figure, while the median income of suburban families remained stable at about 115 percent of the national median.

The divergence of central city and suburban incomes was the largest in central cities of large metropolitan areas (those with populations over one million) where median family income fell from 101 percent of the 1970 national median to 90 percent of the 1982 figure. Widening central city-suburban income differentials can have serious consequences for the social and economic well-being of urban residents. Central cities experiencing declines in family income relative to their suburbs have relatively less capacity to raise revenues and meet service needs of their residents—or of potential employers. Income declines make it more difficult for them to retain middle-income residents and to improve the long-run economic prospects of their low-income households through employment growth.

In the same period, however, in both central cities and suburbs, black male-headed families made substantial gains in median income (Exhibit IV-1). In central cities, their income improved from 83 percent of the 1970 national median to 91 percent of the 1982 national median, while in suburbs, it improved from 83 percent of the 1970 national median to 104 percent of the 1982 median. These gains are due largely to the growth of two-income families and in part to rapid increases in educational attainment leading to improved employment opportunities. Between 1970 and 1982, income differences between blacks living in central cities and suburbs grew as more black families began to locate in the suburbs.

Declines in central city family median income appear to be due in part to the substantial increase in female-headed families. Between 1970 and 1982, the number of families headed by women nearly doubled to 28 percent in central cities and 17 percent in the suburbs. In 1982, 52 percent of all black central city families and 39 percent of all black suburban families were headed by women. Female-headed families had incomes well below the national median family income. In central cities, the median income of families headed by white women was 62 percent of the national median while that of families headed by black and Hispanic women was about 37 percent of the national median.

EXHIBIT IV-1

Family Median Income Relative to U.S. Median Family Income by Race, Sex, and Type of Jurisdiction, 1970 and 1982

U.S. Median Family Income = 100[1]

	Male-Headed Families		Female-Headed Families	
	Central Cities	Suburbs	Central Cities	Suburbs
White				
1970	111	122	61	67
1982	113	117	62	74
Black				
1970	83	83	37	37
1982	91	104	37	47
Spanish Origin				
1970	80	96	36	43
1982	82	94	36	45

1. U.S. median family income was $14,755 in 1970 and $22,228 in 1982.

Source: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Populations, 1977 and 1970," *Current Population Reports*, Special Studies, Series P-23, No. 75, November 1978, and unpublished comparable data for 1982.

Growth of Poverty in Metropolitan Areas

In 1982, 34.4 million persons had incomes below the poverty level.[2] Over 19.3 million lived in metropolitan areas—11.2 million in central cities and 8.1 million in suburbs. Between 1970 and 1982, metropolitan areas' share of the poverty population increased from 56 to 61 percent. In central cities, the poverty rate (the percentage of residents with incomes below the poverty level) increased from 14.9 to 18.0 percent, while in suburbs, it rose from 8.1 to 8.9 percent (Exhibit IV-2). The greatest increase occurred in the central cities of large metropolitan areas where the poverty rate rose from 14.8 to 19.6 percent. However, the number of persons in poverty increased faster in the suburbs.

Poverty rates take into account the receipt of cash assistance, such as Social Security and public assistance, but not noncash assistance in the form of food stamps, other nutrition programs, Medicaid, and housing subsidies. Noncash assistance has increased rapidly in the last decade. In 1982, more than 70 out of every 100 dollars in means-tested assistance was noncash.[3] It has been estimated that taking into account the market value of noncash assistance would reduce the poverty rate by about one-third. The Bureau of the Census has estimated that the 1982 national poverty rate would be reduced from 15 percent to 10 percent if noncash assistance were counted.[4]

Trends in poverty rates must be distinguished from trends in the composition of the poverty population. Poverty rates have remained relatively steady for family households of different types (Exhibit IV-3). As a result of high rates of separation and divorce and unmarried motherhood, however, households headed by women

EXHIBIT IV-2

Poverty Status by Type of Jurisdiction, 1970 and 1982

	All Metro Areas		Large Metro Areas[1]	
	Central Cities	Suburbs	Central Cities	Suburbs
	Number of Persons with Income Below Poverty Level (in thousands)			
1970	9,247	5,976	5,049	2,985
1982	11,237	8,119	6,353	4,350
Percent Change 1970-1982	+22	+36	+26	+46
	Percent of Persons with Income Below Poverty Level			
1970	14.9	8.1	14.8	6.6
1982	18.0	8.9	19.6	7.9
Difference Between 1970 and 1982	+3.1	+.8	+4.8	+1.3

1. Metropolitan areas with populations of one million or more.

Source: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population, 1977 and 1970," *Current Population Reports*, Special Studies, Series P-23, No. 75, November 1978, and unpublished comparable data for 1982.

have increased rapidly in number and now constitute a larger proportion of poverty households. In central cities, 5.5 percent of all white male and 10 percent of all black male family heads had incomes below the poverty level in 1982 compared with 22 percent of all white female and 50 percent of all black female family heads. Of the 2.4 million central city families in poverty in 1982, 67 percent were headed by women. The number of black female-headed families in central cities with incomes below the poverty level more than doubled between 1970 and 1982 to 915,000.

Compared with other household heads, heads of poverty households tend to have lower rates of labor force participation, higher rates of illness and disability, greater difficulty finding work, longer periods of unemployment, fewer wage earners in the household, and lower earnings.

EXHIBIT IV-3

Families in Poverty by Race and Sex of Head and Type of Jurisdiction, 1970 and 1982

	Male-Headed Families		Female-Headed Families	
	Central Cities	Suburbs	Central Cities	Suburbs
	Number of Families in Poverty (in thousands)			
White				
1970	619	703	381	311
1982	520	775	666	676
Percent Change 1970-1982	−16	+10	+75	+117
Black				
1970	290	104	426	84
1982	221	88	915	221
Percent Change 1970-1982	−24	−15	+110	+163
	Percent of Families in Poverty			
White				
1970	5.6	4.2	24.5	21.8
1982	5.5	4.0	22.0	26.3
Black				
1970	14.3	18.0	49.1	50.1
1982	13.1	9.8	49.7	39.6

Source: U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population, 1977 and 1970," *Current Population Reports*, Special Studies, Series P-23, No. 75, November 1978, and unpublished comparable data for 1982.

Heterogeneity of the Poverty Population

The poverty population is not homogeneous. In dealing with the needs of the poor, it is necessary to understand the heterogeneity of the poverty population and the most common reasons why different types of households begin and end spells on welfare.

For purposes of policy analysis, it is useful to distinguish among four types of poverty households:

elderly households, male-headed families, female-headed families, and young, nonfamily households. Public policies have been highly effective in reducing poverty among the elderly. The combination of Social Security, Medicare, Supplemental Security Income, and various forms of noncash assistance have reduced poverty rates among the elderly from 55.1 percent before cash and noncash transfers to 3.7 percent after transfers.[5] As a result, few of the elderly are attached to the work force, and economic growth is not crucial to their income status. On the other end of the age spectrum, poverty among young nonfamily households is closely related to the health of the economy. For many young people, poverty is a temporary result of getting started in the work force.

Economic conditions and employment are critically important to the incomes of nonelderly households. A recent study found that nearly three-quarters of male-headed families begin periods on welfare following a decline in family earnings and over 90 percent leave welfare as a result of an improvement in earnings.[6] In contrast, nearly two-thirds of periods on welfare for female heads of households are precipitated by a change in family relationships that causes them to become a female head of household—e.g., widowhood, separation, divorce, unmarried motherhood, or assumption of responsibility for a child. However, another 25 percent begin a period on welfare because of a decline in earnings. Over one-quarter of female households that leave welfare do so because of a change in a family relationship—for example, through marriage, and about 55 percent because of improved earnings. Even women with very young children to care for have shown themselves to be able to earn their way off welfare. However, women who have been on welfare more than two years have a declining rate of success in leaving welfare, and may need special assistance if they are to achieve independence.

While most persons who ever experience a period on welfare remain on welfare for only a short time, most of those on welfare at any point in time are in the midst of a long spell. As a result, the small percentage of those who begin long periods on welfare each year swell succeeding years' totals. The likelihood that a period on welfare will be long increases among women who have low educational and job skills, who are black, and who have more children. The dynamics of welfare have their largest impact on central cities where households likely to experience long spells on welfare are concentrated. Consequently, policies to assist this group also promise to deliver the largest benefits to central cities.

Effect of Administration Economic Policies on Poverty

One route taken by the Administration to aid the needy has been to expand employment opportunities through the achievement of sustained economic growth. A significant fraction of heads of poverty households are employed or seeking employment. In 1982, 6.3 million or 83 percent of heads of poverty families were between the ages of 22 and 64. Of this number, 54 percent worked at least part of the year. Those who worked part of the year would have worked more if they had not been prevented from doing so by the inability to find work (37 percent of those who worked at all), by illness and disability (5 percent), and by the need to keep house (8 percent). Of the 46 percent who did not work, 16 percent were prevented from doing so by the inability to find work, 25 percent by illness and disability, and 43 percent by the need to keep house.[7]

Employment reduces the incidence of poverty. Only 8 percent of those family householders between the ages of 22 and 64 who worked during the year had incomes below the poverty level compared to 45 percent for those who did not work at all. It is evident that not all family householders are able to work, but increasing employment for those who are able to do so should reduce the incidence of poverty. The Administration's success at increasing employment opportunities through promotion of economic recovery and increasing work effort through welfare reform promises to benefit a substantial number of poverty households.

Historically, poverty rates have varied with the strength of the national economy. During the period 1959-1966, when the economy grew at a rapid pace, per capita real GNP grew at an annual rate of 3.0 percent and the poverty rate for the nonelderly poor declined at an annual rate of 6.4 percent. Between 1966 and 1973, per capita real GNP continued to grow, but at a somewhat slower annual rate of 2.4 percent, and the poverty rate continued to decline, but at the slower annual rate of 3.3 percent. Between 1973 and 1982, per capita real GNP on average grew at the sluggish rate of only 0.9 percent per year, and the poverty rate grew at a rapid 4.0 percent annual rate. This period was characterized by wide swings in the business cycle, and in each of the three recessions, the number of nonelderly poor rose significantly. The number increased by 15.0 percent during the 1973-1975 recession, 13.4 percent during the

1979-1980 recession, and 9.6 percent during the 1981-1982 recession.

These patterns clearly suggest the importance of economic conditions to the incidence of nonelderly poverty. The significance of economic growth for poverty should not be surprising. A three percent increase in GNP adds over $50 billion to incomes of individuals. Although this income is spread across the income distribution, the variations in poverty over the business cycle are ample evidence that the poor and near-poor benefit considerably from economic growth. [8]

Assistance to the Needy

Targeting Assistance to Needy Households

Cash and noncash transfers to individuals and households have increased rapidly in the last decade, but they have not been efficiently targeted to eliminate proverty. Each year the Bureau of the Census estimates the amount of money needed to close the "poverty gap"—i.e., to raise low incomes to the poverty level. In 1970, the poverty gap (before transfers) was estimated to be $39.3 billion, and actual cash and noncash, means-tested transfers were $33.3 billion, not enough to close the gap. In 1981, the poverty gap was estimated to be $50.1 billion, and transfers were $81.0 billion, substantially higher. Nevertheless, the posttransfer poverty gap was $25.6 billion. (All of these figures are in 1982 dollars.) In other words, in 1981, expenditures were 60 percent more than necessary statistically to eradicate poverty, but the poverty gap was reduced by only half. The other half went to people who were not poor to begin with, or raised real incomes of some families far above the poverty line.

Some of this inefficiency is, of course, only apparent. People's incomes and living arrangements may change over the course of the year, while poverty is measured on an annual basis. And a small percentage of means-tested assistance is also devoted to those whose medical expenditures are sufficient to reduce their cash incomes, after these expenditures, to a level below the poverty level. Nevertheless, much of this inefficiency is real. It stems in large measure from the proliferation of benefit programs and a lack of coordination among them. In 1965, welfare recipients on average participated in one means-tested program. By 1981, they participated in three. This pyramiding of benefits resulted in some families who received assistance directed toward the needy having total incomes well above the poverty line. [9]

Administration Initiatives

It has been the aim of the Reagan Administration to improve the targeting and incentive structure of means-tested entitlement programs and to reduce or eliminate benefits among those who are not in need. For example, it imposed gross income limits well above the poverty level in AFDC, Food Stamps, and the free and reduced-price lunch and breakfast programs. It acted to provide employment experience, work incentives, and job search and other employment services for AFDC recipients to alleviate dependence on welfare programs, and it acted to strengthen the child support enforcement program to provide the income and support due children from absent parents. Deductions in AFDC were restructured, and the assistance unit was expanded to recognize the contribution to family well-being of all family members. As a result, while means-tested cash and noncash assistance remained steady between 1981 and 1982, the percentage of benefits going to reduce the extent of poverty—the target efficiency index—rose from 49 to 54, a 10 percent increase. [10]

The recent severe recession has focused public attention on the problem of hunger. Because no reliable estimates exist of the extent of the problem, the President established a Task Force on Food Assistance to investigate the matter. The Task Force found that:

. . . There are a number of people who find it necessary at various times to avail themselves of food assistance programs in order to get enough to eat. There are people who must sometimes cut back on food expenditures to pay their rent and utility bills; toward the end of the month there are individuals and families who run out of money for food; there are homeless people who are unable to support themselves or even to avail themselves of existing public assistance programs. . . . [11]

The Task Force recommended that States be allowed the option of establishing several autonomous food assistance programs. It also made recommendations for improving program targeting and administration and for encouraging private sector food assistance efforts. [12]

Both Census and program estimates of participation in food programs suggest that while eligibility has been tightened, benefits to the neediest households have increased. Between 1980 and 1982, Census estimates of the number of households receiving food stamps increased from 6.8 to 7.2 million, and more of the assistance went to the neediest households. Of all households that received food stamps in 1982, 72 percent had incomes below the poverty line. This represented an increase from 66 percent who received food stamps in 1980. At the same time, more of the neediest households received food stamps. Nationally, among households with incomes below the poverty level, the percentage receiving food stamps increased from 40 percent in 1980 to 43 percent in 1982, while in central cities, it increased from 46 percent to 48 percent. Of the households receiving food stamps in 1982, 67 percent had children under 19 years of age, 40 percent were headed by women, and 16 percent were headed by persons 65 years old and over. [13]

Program data show that between 1980 and 1983, participation in the food stamp program increased from 19.3 to 21.6 million persons, or almost 12 percent, while real benefits per person increased by 10 percent. In the same period, participation in the Women, Infants, and Children Supplemental Food Program (WIC) increased from 1.85 million to 2.4 million, a 30 percent increase, while real benefits kept pace with inflation. Finally, in the same period, participation in the free or reduced-price lunch program remained stable at about 12 million participants per day. Total U.S. Department of Agriculture expenditures on food programs, including both cash expenditures for food stamps, child nutrition programs, and WIC, and commodities and cash in lieu of commodities, increased from $14.0 billion in March 1980 to $19.1 billion in March 1983, a 37 percent increase in nominal expenditures and a 13 percent increase in constant dollars. [14]

Emergency Shelter and Food

Estimates of the number of homeless vary widely. HUD has recently released a study evaluating these estimates. The report found that the number of homeless probably ranges from 250,000 to 350,000. The report also documented that highly effective and significant efforts are being made by State and local governments and private and philanthropic organizations to address the needs of the homeless.

This Administration, with the Department of Health and Human Services in the lead, has initiated a Federal interagency task force to coordinate Federal food and shelter activities and to promote interagency cooperative activities to help alleviate the problems of the homeless.

The following actions have been taken:

- HUD leases vacant single-family properties, reacquired under the General or Special Risk Insurance funds, to local governments and charitable or religious organizations for temporary shelter for the homeless.

- A Memorandum of Understanding was negotiated between the Departments of Health and Human Services (HHS) and Defense, under which food returned to commercial vendors by military commissaries is being made available to food banks serving the poor, including the homeless poor. To date, some 130 food banks of a potential 240 have been linked with approximately 200 of a potential 240 Army, Navy, and Air Force installations. A similar Memorandum of Understanding has just been completed with the Department of Transportation, under which 11 of a potential 75 Coast Guard commissaries will be linked to local food banks.

- Jurisdictions can use HUD's Community Development Block Grant funds to assist the homeless. Since the beginning of 1983 over $39 million in these funds were expended by more than 175 local jurisdictions for assistance to the homeless.

- The Federal Emergency Management Administration obligated $100 million by September 30, 1983, for an emergency food and shelter program. These funds, from the Jobs Stimulus Bill, were divided among States for grants to needy local residents, and a National Board of voluntary organizations which distributed funds to local private voluntary organizations in localities of highest need. In FY 1984 the National Board is charged with the distribution of $40 million to supplement and extend emergency food and shelter services.

- The Department of Defense (DOD) provides facilities for emergency shelter on military property, with local community assistance organizations providing beds, food, transportation, and security. Among facilities available are Kirkland Air Force Base, N.M.; Navy facilities at Corpus Christi, Tex.; the U.S. Army Reserve Center in Edison, N.J.; and, potentially, Camp Parks near San Francisco, Calif.; and a Navy facility in Philadelphia. DOD was also appropriated $8 million to assist in its renovation or repair of military facilities for shelter for the homeless.

- A 10-city demonstration program has been initiated and includes the following cities: Atlanta, Ga.; Baltimore, Md.; Boston, Mass.; Memphis, Tenn.; Pittsburgh, Pa.; St. Louis, Mo.; San Francisco, Calif.; Detroit, Mich.; Tunica, Miss.; and Washington, D.C. In Memphis, an interim placement homeless shelter was developed through the use of 10 HUD-held single family properties. Nineteen families have been provided shelter since the first of the year.

- In Washington, D.C., a GSA structure was transferred to HHS, which in turn has housed 800 men and 200 women since the first of the year. The lease on this property expired on April 1, 1984, but as a result of the efforts of the Interagency Task Force, the President has directed that the shelter continue to operate until an alternative location can be identified.

Recently, the President charged the Federal Interagency Task Force on Food and Shelter for the Homeless with additional missions, including the following:

- To draw from resources of the Alcohol, Drug Abuse, and Mental Health Administration to develop understanding of chronic homelessness as it relates to deinstitutionalization, mental illness, and substance abuse.
- To compile a comprehensive inventory of Federal resources available including government buildings, supplies, and food resources.
- To identify impediments in statutes and regulations that restrict the provision of available government resources to serve the homeless.
- To present options for ways that the Federal Government can assist States, localities, and the private sector in serving the homeless.

At the direction of HHS Secretary Margaret Heckler, the work group will submit its preliminary report and findings to the Cabinet Council on Human Resources.

Increasing State Responsibility for Health and Human Services

Another approach taken by the Administration to improve the targeting and responsiveness of health and human services involves increasing State responsibility for program administration. With the passage of the Omnibus Budget Reconciliation Act of 1981, approximately 30 categorical Health and Human Services programs were consolidated into seven block grants. Four of the block grants are for health services, two fund social services, and one provides home energy assistance for low-income households.

The Reconciliation Act also reduced the Federal matching share for the Medicaid program and provided States some additional flexibility to manage the program more efficiently. Unconstrained growth of the Medicaid program has placed a heavy burden on both Federal and State taxpayers. Open-ended Federal matching, poorly structured benefits, and overly generous eligibility have contributed to Medicaid's failure to provide cost-effective services to those in need.

Impacts on States and their Residents

The impact of increased State responsibility is most evident in connection with the Medicaid program. Census estimates of Medicaid coverage show that targeting of benefits increased between 1980 and 1982. While the number of households with one or more members covered by Medicaid declined from 8.3 million in 1980 to 8.1 million in 1982, the percentage of recipients with incomes below the poverty line increased from 53.3 percent in 1980 to 59.1 percent in 1982. In 1982, 39.2 percent of poverty households had one or more members covered by Medicaid. [15]

States are also asserting their priorities in other program areas. Major studies of the impact of the new block grant programs are still underway, but preliminary findings suggest that the majority of States are maintaining and even increasing program levels. Drawing upon other Federal funds and State and local resources, they are allocating resources among program activities in accordance with their own priorities to the degree permitted under statute; and they welcome the increased discretion and reduced Federal reporting requirements.

In general, Governors and State legislators have been involved more directly in planning and resource allocation than in many of the prior categorical programs. The States also moved quickly to involve a wide spectrum of people and groups in the allocation of these funds. To the extent that States have shifted funding priorities, resources have been targeted to the poorest populations or to families on welfare.

Child Care

Child care is an area in which the Administration is encouraging increased involvement by States and the private sector. [16] Child care provision has increased in importance as mothers with children under six years of age enter the labor force in growing numbers. In 1950, 12 percent of mothers with children under six years of age were in the labor force; in 1982, 50 percent of these mothers were working. There are nearly eight million preschoolers (or 46 percent) with working mothers. About half of the children of working women are cared for in day-care centers and by babysitters who are not related to the child.

The Administration has increased Federal financial support for the provision of child care since Fiscal Year 1980. The largest and fastest growing source of support is the Child Care Tax Credit, which has increased from $960 million in FY 1980 to an estimated $1,960 million in FY 1984. The virtue of the tax credit is that it permits wide parental discretion in the choice of child care providers. The amount of the credit was increased by the Economic Recovery Act of 1981.

The Head Start program has increased from $812 million in FY 1980 to an estimated $1.05 billion in FY 1984 and serves approximately 400,000 children. Meals for children in day care are subsidized under the Child Care Feeding program, which has increased from $235 million in FY 1980 to an estimated $373 million in FY 1984. The AFDC work expense disregard, which allows up to $160 per month per child as an earnings disregard for child care for a full-time working AFDC parent, amounted to an estimated $125 million in FY 1984.

States are expected to devote approximately 20 percent of social service block grant funds (about $500 million) to child care, principally for low-income families. Federal deregulation has increased their ability to use these funds efficiently. By setting aside proposed Federal Interagency Day Care regulations, the Administration acknowledged State and local responsibility to regulate child care as needed and permitted States to use Federal funds to serve more children at lower cost per child. Department of Health and Human Services staff estimate that FY 1984 support for child care will exceed FY 1980 support of $2,737 million by approximately $1,100 million (30 percent), and that an estimated 7.5 to 8 million families are aided by the programs.

In addition, through its private sector initiative office, the Administration is encouraging corporate support for child care for employees. The Department of Health and Human Services has been actively involved in providing technical assistance and support to the private sector initiative on employer-assisted child care and other locally initiated child care projects. In conjunction with the Rockefeller Foundation, the Women's Bureau of the Department of Labor is funding four demonstra-

tion projects to encourage employers to provide such services.

Project Self-Sufficiency

An Administration initiative to focus public and private assistance on the needs of the female heads of household is Project Self-Sufficiency, an experimental effort designed to help this population move from poverty and dependence on welfare to self-sustaining employment.

Project Self-Sufficiency is envisioned as an intensive, short-term (e.g., 12 to 18 months) program that would enable poor, single-parent households with small

children to make the transition to productive employment and the mainstream of society. These goals would be accomplished through a coordinated effort to provide housing assistance, job training, child care, and counseling services that will enable participants to achieve permanent employment and self-reliance. Project Self-Sufficiency would be accomplished through a public-private partnership that would combine the resources of all levels of government, business, private industry councils, labor, education, and community groups in a task force able to target and respond to these diverse local needs. The Department of Housing and Urban Development has committed 5,000 Housing Certificates (vouchers) to the effort. These vouchers enable the single-parent-headed household to seek housing anywhere throughout the local community. These vouchers would be made available only to local communities willing to form public-private partnerships able to address the needs of single-parent households. Additionally, HUD will provide the technical assistance necessary to help communities design and implement the program.

In summary, this section has shown that, while central city and suburban income differentials have continued to widen, black male-headed families in both central cities and suburbs have substantially improved their relative income in the last decade. Poverty rates continue to increase in central cities, and the number of poor people is growing rapidly in the suburbs. As a consequence of high rates of divorce, separation, and unmarried motherhood, the number of female-headed households is growing rapidly. While the poverty rate of female householders has not increased in the last decade, it is very high; and persons in female-headed households constitute a growing proportion of the poverty population.

Historically, poverty rates have varied with the strength of the economy. A substantial proportion of family householders in poverty already work and would work more if they were able to find work or overcome other impediments. The Administration's efforts to increase employment opportunities through economic recovery should benefit poverty householders who are able to work. As a result of Administration efforts, cash and noncash benefits are being more efficiently targeted to needy households. In addition, increased involvement by States and the private sector in the provision of health and human services is increasing the cost effectiveness and responsiveness of service delivery.

Education

The goal of the Administration's education policy is to assist States, local school districts, and parents to assume their prime responsibility in providing the best possible education for all citizens. Despite a history of growing Federal involvement in education, when President Reagan took office the condition of U.S. education was perilous. Over the past decade or so, it had become clear that there had been a significant decline in quality.[17]

The National Commission on Excellence in Education, established by the Administration, found the United States to be a "Nation at Risk":

- Between 1963 and 1980 test scores of graduating high school seniors on the Scholastic Aptitude Test (SAT) were in unbroken decline.
- Too little was expected and demanded of students; standards had eroded.
- Thirteen percent of all 17 year-olds and more than 40 percent of black 17 year-olds were functional illiterates.
- Most students had less than one hour of homework a day.

The Commission concluded that "the educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a nation and a people."

A New Partnership

In order to revitalize education, the Reagan Administration has dedicated itself to a new partnership with those who are responsible for providing education—State and local authorities. A key feature of this new partnership is that it includes Federal leadership but not control. The Federal Government's role in this new partnership involves:

- Strengthening local school districts.
- Helping States carry out their responsibilities.
- Helping to meet the special needs of certain groups, including the handicapped, the disadvantaged, and minorities.

Urban school districts are among the beneficiaries of these policies.

This policy direction represents a significant shift from 1981, when at the start of the Reagan Administration, the U.S. Department of Education administered about 150 programs whose broad scope and complex regulations obscured the responsibility of State and local authorities. The profusion of these programs stifled State and local initiative and left State and local school officials with time-consuming and costly burdens of paperwork and reports.

The elements of the Administration's federalism partnership, which is aimed at enhancing State and local capacity to provide quality education, include:

- Deregulation,
- Program consolidation, and, most importantly,
- Leadership.

Deregulation

Deregulation strengthens State and local education authorities by reducing costly and burdensome Federal regulatory and administrative requirements. The deregulation goal pursued by the Department of Education is to insure that regulations do not require more from State and local agencies or grant recipients than is required by law.

Particular attention is given to areas where decision-making can occur in State and local education agencies, rather than in the Federal Government. As a result of the Education Consolidation and Improvement Act of 1981, for example, the Secretary of Education canceled 30 sets of regulations governing more than 1,700 annual grants and contracts.

Program Consolidation

Program consolidation strengthens State and local education authorities by allowing them the freedom to choose the educational activities most appropriate for their situations. At the beginning of the Reagan Administration, the U.S. Department of Education operated numerous separate elementary and secondary education programs. Chapter 2 of the same Education Consolidation and Improvement Act of 1981 combined 29 categorical programs into a single block grant to States. The new statute provides a broad authorization that includes purposes authorized in the previous programs, but State and local educators make the onsite decisions concerning educational priorities they will meet with Chapter 2 funds.

So far, it is estimated that State and local governments have saved $1.8 million in administrative costs and 191,000 person-hours in paperwork as a result.

Leadership

Leadership is the most significant way in which the Reagan Administration has addressed the problem of quality in U.S. education and acted to strengthen State and local education authorities. There is currently a national debate over the quality of education in America and ways to improve it.

This debate was largely sparked by "A Nation at Risk," the report of the National Commission on Excellence in Education (NCEE). To focus and guide this national debate, the U.S. Department of Education recently held a National Forum on Excellence in Education (in Indianapolis, Ind.) following 12 regional forums around the country.

These national and regional forums brought together Governors, State legislators, State and local education officials, education practitioners, parents, and business leaders to discuss ways in which educational quality might be improved. Among the initiatives discussed, the Reagan Administration has strongly advocated:

- Stricter discipline codes, including support for teachers when they enforce those codes.

- Master teacher and merit pay plans to recognize and reward outstanding teachers (such as the one adopted under the leadership of Governor Lamar Alexander in the State of Tennessee).

- Increasing standards and requirements for high school graduation, including the five "new basics": four years of English, three years of mathematics, three years of science, three years of social studies, and one-half year of computer science.

All of these initiatives would improve American education and help to meet the national need for people well trained in math, science, social studies, and the humanities. However, simply increasing expenditures on education is not the answer to improving education quality. Total expenditures in the Nation's elementary and secondary schools in the 1982-83 school year exceeded $130 billion. This doubles (in current dollars) what was previously spent on education (for fewer students) 10 years ago; yet quality has declined.

Private Sector Involvement

The Reagan Administration has also acted to increase the involvement of the private sector in education. A chief means is Partnerships in Education, an initiative to encourage private corporations and businesses to share their resources and expertise with schools. In October 1982, the Administration proclaimed the National Year of Partnerships in Education with a goal for all 110,000 U.S. schools to have formed such a "partnership in education" with businesses, labor unions, and other groups. As a result:

- In Dallas, more than 1,000 businesses have struck partnerships with 140 schools.
- In Chicago, 133 businesses are partners with 140 schools.
- In San Diego, schools are partners with the Chargers, the Padres, and the Navy.

Math and Science Education

The Reagan Administration has also moved to meet a problem in math and science education. In order to ensure adequate math and science teachers to educate students for our increasingly competitive and interdependent world economy, the Administration has proposed a $50 million per year block grant to train 10,000 new math and science teachers each year for four years.

In addition, the Administration has also launched an initiative to end adult illiteracy. Working in cooperation with the White House Task Force on Private Sector Initiatives, the Department of Education is encouraging private sponsors to set up adult literacy programs.

Increasing Parental Control

In addition to the Administration's federalism initiative, the key priority of this Administration's education policy is to increase parental choice and control in the education of their children. For good reason, many parents are deeply concerned about the quality of education. Especially in urban areas, too many children cannot get the education they deserve. Parents should have the right to choose the schools they feel are best for their children. Yet because many cannot afford the double burden of private school tuition in addition to taxes for the public schools, they are of necessity excluded from choosing private education. This is especially the case with low-income familes, many of whom are in urban areas.

To increase parental choice and control in the education of their children, the Reagan Administration has proposed:

Tuition tax credits for elementary-secondary education; and
Compensatory education vouchers for educationally disadvantaged children.

By fostering greater competition among schools, both of these proposals would benefit urban education. A recent Gallup Poll has shown widespread support for increasing parental choice and control through an education voucher. Among the public as a whole, 51 percent support an education voucher, while among blacks, 64 percent would like a voucher.

Special Needs Children

Finally, the Administration has maintained a commitment to special needs children. For FY 1985, it has proposed $4.7 billion for educationally disadvantaged and handicapped students. Urban areas have the greatest concentration of special needs children and thus would benefit most.

In summary, the Administration is providing leadership to raise the quality of education. It is enhancing State and local capability by consolidating and deregulating Federal education programs, by supporting the concept of merit pay, by encouraging more private sector involvement in education, and by proposing to enhance parental control over education through tuition tax credits and education vouchers. Provision of education is primarily the responsibility of State and local governments, but the Administration is providing leadership in the development of the broad-based partnerships essential to their success.

Urban Crime

Crime is one of the most serious problems facing urban America. Each year, about 40 million crimes of violence and theft are committed. Fear of crime can destroy communities and drive away businesses. The costs of crime, both to the taxpayer and to the victims, place a significant burden on society. Reduction of crime is one of the Administration's highest priorities. [18]

In 1982 there were signs of progress in the continuing fight against crime. According to the Federal Bureau of Investigation's Uniform Crime Reports, crime reported to police dropped by three percent—the first significant decrease since 1977. In addition, the National Crime Survey of the Bureau of Justice Statistics, which measures persons who say they were victimized by crime, found that crime in the United States fell four percent during the year—the most sweeping downturn recorded since the survey began in 1973. During 1983, this trend continued with a seven percent decline in the amount of reported serious crime.

Urban locales shared in the general decline of crime in 1982. The FBI reports that, for metropolitan areas, the property crime rate decreased from 5,913 to 5,660 per 100,000 population, and the violent crime rate from 691 to 663. Nevertheless, over the 10 years ending in 1982, violent and property crime rates have been consistently higher for metropolitan than for nonmetropolitan areas.

Minority groups are disproportionately victimized by crime, with blacks more often affected by violent crime than whites, and Hispanics more victimized by property crime than non-Hispanics. The economic impact of crime hits the poor most heavily. The burden of crimes involving money or property loss or destruction of property, expressed as a proportion of reported family income, is higher for lower income families. Violent crime rates are also higher for lower income people. Young people are more often victims of crime than the elderly for most types of crime. When the elderly are touched by crime, however, they appear to be relatively more susceptible to crime that is motivated by economic gain, particularly purse-snatching and pocket-picking. Although these crimes often are not violent, they may cause considerable fear in victims.

In recent years, as a result of a enormous market for illicit drugs, crime has become highly organized and more sophisticated. Drug trafficking coupled with organized crime is the principal domestic crime problem plaguing the Nation today. While this problem affects every element of society, urban centers are most threatened. To reduce this threat, the Administration has undertaken numerous initiatives to attack the problem of urban crime, with special emphasis on drug trafficking and organized crime.

Combating Drugs and Organized Crime

President's Commission on Organized Crime. The Administration has recently created the President's Commission on Organized Crime as a principal element of a comprehensive program for combating drugs and organized crime. The Commission is in the process of:

- Making a national and region-by-region analysis of organized crime.
- Developing in-depth information on the participants in organized crime networks.
- Evaluating Federal laws pertinent to organized crime.
- Making recommendations for administrative and legislative improvements as well as improvements in the administration of justice.
- Defining the nature of traditional organized crime as well as of emerging organized crime groups, the sources and amounts of income from organized crime and the uses to which organized crime puts its income.

Drug Task Force. The Administration has established 12 new regional Drug Enforcement Task Forces throughout the country to mount a national coordinated attack against organized drug trafficking. More than 1,000 Federal agents, 200 Federal prosecutors, and 400 support personnel have been authorized to do the work of the Task Forces. Under the direction of the Attorney General, they work with State and local law enforcement agencies in order to assure a concerted approach. As a result of the experience gained in coordinating the diverse agencies involved in the South Florida Task Force, the Task Forces are focusing the resources of the Federal Government, including the combined resources of the Federal Bureau of Investigation (FBI); Drug Enforcement Administration (DEA); the U.S. Attorneys; Internal Revenue Service; Bureau of Alcohol, Tobacco, and Firearms; Immigration and Naturalization Service; U.S. Marshals Service; Customs; and Coast Guard. The Administration for the first time in history has brought to bear the resources of the FBI to complement those of the DEA in a drug enforcement effort. These task forces represent the largest Federal effort against drug trafficking ever assembled.

Cabinet-level Committee. The attack on organized crime and drug trafficking is coordinated and sustained at the highest levels of the Administration. Policies affecting all Federal Government agencies have been brought together in a comprehensive attack on drug trafficking and organized crime under a Cabinet Council on Legal Policy chaired by the President and, at the President's behest, the Attorney General. The Working Group on Drug Supply Reduction, headed by the Associate Attorney General, coordinates interdepartment operations. The working group's job is to assure interagency and intergovernment cooperation in the struggle against organized crime.

Assisting Victims and Witnesses

President's Task Force on the Victims of Crime. The President's Task Force on Victims of Crime was established in April 1982, showing the President's concern for the plight of the victims of crime. The Task Force's Final Report, submitted in December 1982, made recommendations for executive and legislative action at the Federal and State levels to improve the treatment of, and service to, crime victims. These include recommendations directed to the police, prosecutors, the judiciary, and parole boards. Recommendations were also made for nongovernmental entities, such as hospitals, the ministry, the Bar, schools, the mental health community, and the private sector. An Office for Victims of Crime was established within the Office of Justice Assistance, Research, and Statistics (OJARS) to implement some of the Task Force recommendations. These include: establishment of a National Victims Resource Center; development of model victims legislation patterned after the legislative recommendations of the Task Force; and development of victim training packages for judges, prosecutors, and law enforcement personnel.

Attorney General's Guidelines for Victim and Witness Assistance. The Victim and Witness Protection Act of 1982 was enacted to assist, protect, and enhance the role of victims and witnesses in the criminal justice system and to serve as a model for State and local officials to use in their victim assistance efforts. Pursuant to the Act, the Attorney General issued guidelines for victim and witness assistance to Department of Justice units, which outline the types of referral, information, and consultation services that Federal law enforcement personnel and prosecutors should provide to crime victims.

The Guidelines provide that special attention be given to victims and witnesses who have suffered physical, financial, or emotional trauma as a result of violent criminal activity.

Attorney General's Task Force on Violent Crime. The Attorney General's Task Force on Violent Crime was created in April 1981 to recommend ways in which the Federal Government could combat violent crime. In its first phase, the Task Force recommended measures that the Justice Department could immediately implement without the need for additional legislation or funding and that would not decrease the Department's other important offensives against crime. In its second phase, the Task Force focused on changes in Federal criminal statutes, funding levels, and resources that would increase the Federal Government's impact on violent crime. A substantial majority of the Task Force's 64 recommendations have been implemented.

Attorney General's Task Force on Family Violence. In September 1983, the Attorney General's Task Force on Family Violence was created. The objective of the Task Force is to make specific recommendations to the Attorney General concerning family violence with special consideration given to the abuse and molestation of children, spouse abuse, and mistreatment of the elderly. It will review governmental and nongovernmental programs at the Federal, State, and local levels in determining its recommendations. The Commission's report is expected in the Fall of 1984.

Coordinating Efforts with State and Local Government

Law Enforcement Coordinating Committee. In June of 1981, the Attorney General directed each United States Attorney to form a Law Enforcement Coordinating Committee (LECC) in his or her district. The Committees consist of representatives of Federal law enforcement agencies and appropriate State and local law enforcement officials. Through the combined efforts of Federal, State, and local law enforcement officials, LECC's establish priorities and develop strategies to achieve the maximum impact on the most serious crime problems in each district. Two-thirds of the districts identified drugs as their number one enforcement priority.

Executive Working Group. The Executive Working Group for Federal-State-Local Prosecutorial Relations (EWG) was created in 1979. Its membership is made up of 18 representatives—6 each from the Department of Justice, the National Association of Attorneys General, and the National Association of District Attorneys.

The EWG provides a forum for law enforcement officials from all levels of government to engage in discussion regarding mutual law enforcement priorities, differing approaches to prosecution, legislative proposals, training efforts, and Federal financial assistance.

Governors' Project. This project assists the Nation's Governors in coming together to bring about needed criminal justice reforms in the fight against organized crime and drugs. The Governors' Project brings to the attention of the States new racketeering enforcement measures and initiatives and, at the same time, serves as a sounding board for the Governors' concerns.

State and Local Training. Through the Departments of Justice and Treasury, a National Center for State and Local Law Enforcement Training has been established at the existing Federal facility in Glynco, Ga. Complementing the training programs already operated by the FBI at Quantico, Va., the Center is training local law enforcement agents and officials in investigating arson, bombing, bribery, computer theft, contract fraud, bid rigging, and other offenses encountered in organized crime.

Criminal Law Reform. The Administration is seeking reforms in Federal criminal statutes dealing with such areas as bail, sentencing, criminal forfeiture, the exclusionary rule, and labor racketeering that will provide a long overdue strengthening of the legal process involved in the battle against organized crime.

The centerpiece of this legislative activity is the Comprehensive Crime Control Act of 1983 submitted to the Congress by the President in March of 1983. This omnibus crime bill was passed by the Senate in February 1984 and provides for:

Bail Reform: It authorizes courts to consider danger to the community in setting bail conditions, to deny bail altogether where a defendant presents an especially grave danger to others in the community and to permit inquiry into the source of bail money; and authorizes the courts to refuse to accept money or property which would not reasonably ensure a defendant's appearance at trial.

Sentencing Reform: It replaces the present disparate sentencing system with a more balanced and uniform system of sentencing guidelines for Federal criminal offenses.

Insanity Defense Reform: It narrows the insanity defense and places the burden on the defendant to prove insanity, and provides for Federal custody of persons acquitted by reason of insanity where the State does not assume the responsibility.

Forfeiture Reform: It strengthens criminal and civil forfeiture laws to improve the ability of the Government to reach proceeds of illegal acts by organized crime and narcotics trafficking operations and allows the Attorney General to transfer forfeited property to State and local law enforcement agencies which have given significant assistance in drug investigations.

Drug Enforcement Amendments: It provides for an increase in penalties for drug trafficking and strengthens efforts to prevent diversion of controlled substances into illicit hands.

This bill also includes a title dealing with limited Federal financial support for certain State and local criminal justice programs. This narrowly targeted financial support will aid State and local criminal justice entities in programs focusing on such things as violent crime, victim and witness assistance, repeat offenders, crime prevention, and career criminal prosecution.

Research and Program Development

Through the Office of Justice Assistance, Research, and Statistics (OJARS) of the Justice Department, research and program activities have been launched that focus on urban crime and assist State and local governments in dealing with this problem.

The problem of jail and prison overcrowding is of great concern to State and local officials. The dramatic recent increases in the number of jail and prison inmates (from 453,000 in 1978 to 622,000 in 1982) have strained the resources of already overburdened State and city institutions. To help provide some guidance to jurisdictions faced with unappealing alternatives to overcrowded prisons, the National Institute of Justice is conducting a major program of research and evaluation on this problem. The effects of early release programs are being examined in terms of relief to the institutions as well as the even more important potential effects on public safety. The benefits of targeting scarce resources at the violent offender are being assessed. In addition, through a program of defendant drug testing, the Institute is attempting to improve pretrial release decisions by identifying high-risk defendants.

OJARS also supports a nationwide public eduation campaign on crime prevention in cooperation with the Advertising Council, Inc., and the Crime Prevention Coalition, a group of about 90 Federal agencies, national groups, and State programs. The highly successful effort brings to the American people practical, down-to-earth recommendations on how to make themselves, their families, their homes, and their neighborhoods safe from crime. It promotes collective citizen programs such as Neighborhood Watch. OJARS estimates that about 30 million people have learned something new or taken some preventive action as a result of this educational program. In addition, the program has helped create a readiness on the part of the citizens to assist in the fight against crime, a readiness reflected in the fact that about one in six Americans now participates in some sort of organized crime prevention activity. The significant decreases in residential burglaries experienced in 1982 are attributed at least in part to these growing citizen-police community crime prevention activities.

State and Local Government Initiatives

A number of State and local governments are acting in creative ways to reduce criminal activity or respond to it in a more effective manner. Examples follow:

Statewide Crime Prevention Program: Pennsylvania. The Pennsylvania Council on Crime and Delinquency has received nationwide attention in developing community and police department participation in the statewide Crime Watch program. One of the basic goals is to see that every police department in the State has a certified crime prevention officer. To date, more than 2,000 officers have been certified in the basic course and 675 officers have completed this advanced training program. Recently included in the Pennsylvania crime prevention initiative was a "model city program. " This program includes all of the elements of a community-based crime prevention program and also provides special training for all municipal elected officials.

Repeat Offenders: Maryland. The Maryland Criminal Justice Coordinating Council and its Repeat Offender Task Force have designed a unique experimental program to reduce serious delinquent and criminal activity by repeat offenders. The Repeat Offender Program Experiment (ROPE) is intended to improve the way adult and juvenile repeat offenders are apprehended, prosecuted/petitioned, convicted/adjudicated, sentenced/disposed, and incarcerated/committed, through a concentrated and coordinated effort by State and local justice agencies.

Victims: California. Several bills were enacted in September 1983 in California relating to victims' compensation that implement provisions of California's victim's bill of rights, otherwise known as Proposition 8. Assembly Bill 2041 provides that restitution fines imposed on offenders be made payable to the clerk of the court or the person responsible for the collection of fines. Failure to pay the fines in certain cases would result in the payment of fines from wages of prisoners and wards. Under compelling or extraordinary circumstances, the offender may be sentenced to perform community services. Assembly Bill 1087 defines restitution and provides for the imposition of specific restitution fines and for payment of those fines. Assembly Bill 331 establishes a State-mandated local program requiring probation officers to notify victims of their rights to civil recovery against the defendant and of the opportunity to be compensated from the Restitution Fund.

Crime Prevention: Texas. Texas homeowners can qualify for a five percent reduction in homeowners insurance premiums following property certification by a qualified security inspector. The reduced premium program was instituted by the State Board of Insurance in compliance with a measure enacted by the State Legislature designed to offer incentives for lessening the opportunity for crime. Security inspectors are trained by the Texas Crime Prevention Institute and certified following completion of one of their courses.

Citizen-Oriented Police Encounters (COPE): Baltimore. COPE is an innovative unit of 45 police officers who survey targeted neighborhoods to determine citizens' fears and the underlying problems that contribute to those fears. In some cases, they found that the fear is considerably greater than the actual problem. In these cases, they try to rectify the situation through education. In those instances where the community's fear is justified by a crime problem, the unit seeks to address the underlying problem contributing to that fear. The unit does not adopt the traditional police approach to solving problems, but rather looks beyond traditional police departmental remedies to solutions that better utilize all the community's resources.

Hampton Neighborhood Watch: Hampton, Va. Community crime prevention projects such as the Hampton Neighborhood Watch Program may have the largest single impact on crime reduction. The police provide guidance in establishing neighborhood groups, disseminate information regarding crime prevention and self-protection to the group members, and show citizens how they can detect crime and quickly report suspicious events to the police. Citizens are also given the opportunity to relay to the police their perceptions of particular neighborhood problems. The benefits of neighborhood watches—fear reduction, better cooperation between the police and the community, and an increased citizen awareness of how to reduce crime—have caused them to be replicated by many of the Nation's police departments.

Community-Oriented Policing (COP): Santa Ana, Calif. Santa Ana's Community-Oriented Policing (COP) is a multifaceted community crime prevention program which brings together community members, law enforcement officials, and others to find workable solutions to the problem of crime in the community. The police department has reorganized its patrol beat into small community-based efforts to solve the crime problems. Effective community crime prevention programs such as Neighborhood Watch have been implemented and sustained over long periods of time. These types of community crime prevention efforts as well as the close working relationship between the police and the community have had a dramatic impact on crime and the delivery of police services.

In summary, crime in urban America is a critical problem that must be ameliorated if our cities are to remain viable places in which to live and work. Each level of government must do its part if the recent downward trend in crime rates is to continue. As this summary of initiatives reveals, the Administration is strongly committed to leading the fight against drug traffic and organized crime, encouraging humane treatment of victims and witnesses, playing a coordinating role in Federal, State, and local law enforcement efforts, and disseminating information about effective criminal justice and crime prevention methods.

But State and local governments, with the assistance of individual citizens and organized groups, must continue to bear the brunt of the responsibility for reducing crime and the fear of crime, and thereby improving the quality of urban life. The partial list of State and local initiatives above demonstrates that States and localities have the capacity to carry out their responsibility with ingenuity and imagination, and as these efforts are multiplied, cities will become safer places in which to live and work.

Notes

1. All of the figures in this section on income, health, and human services are drawn from the following sources and use 1970 SMSA definitions unless otherwise indicated. U.S. Bureau of the Census, "Social and Economic Characteristics of the Metropolitan and Nonmetropolitan Population, 1977 and 1970," *Current Population Reports,* Special Studies, Series P-23, No. 75, November 1978; and unpublished comparable data for 1975, 1980, 1981, and 1982.
2. The official poverty level amounts to approximately three times the Department of Agriculture's economy food plan, adjusted for family size and composition and place of residence. It is increased annually to keep pace with the Consumer Price Index.
3. Statement of David A. Stockman, Director, Office of Management and Budget, before the U.S. Congress, House Ways and Means Subcommittee on Oversight, and Public Assistance and Unemployment, November 3, 1983, p. 6, 8.
4. U.S. Bureau of the Census. "Estimates of Poverty Including the Value of Noncash Benefits: 1979 to 1982." Technical Paper 51, February 1984.
5. Statement of David Stockman, *op. cit.,* p. 11.
6. The discussion of periods on welfare is based on two studies by Mary Jo Bane and David T. Ellwood of Harvard University: "The Dynamics of Dependence: The Routes to Self-Sufficiency," June 1983, and "Slipping Into and Out of Poverty: The Dynamics of Spells," August 1983. These studies are also discussed in David Stockman's testimony cited above, p. 26-32. For a summary of longitudinal studies of income and poverty, see *Years of Poverty, Years of Plenty,* by Greg J. Duncan *et al.* Ann Arbor: Institute for Social Research, University of Michigan, 1984.
7. U.S. Bureau of the Census. "Characteristics of the Population Below the Poverty Level: 1982." *Consumer Income,* Series P-60, No. 144, March 1984.
8. Statement of David Stockman, *op. cit.,* p. 15-17.
9. *Ibid.,* 18-20.
10. *Ibid.,* 20-21.
11. U.S. President's Task Force on Food Assistance. Summary of Final Report, January 9, 1984.
12. *Ibid.*
13. U.S. Bureau of the Census. "Characteristics of Households and Persons Receiving Selected Noncash Benefits: 1980," and Advance Data for 1982, *Current Population Reports.* Consumer Income, Series P-60, No. 131, May 1982; and No. 141, September 1983.
14. U.S. Department of Agriculture, Food and Nutrition Service, Management Information Division, unpublished data. These figures the value of bonus commodities that USDA donates to the programs.
15. U.S. Bureau of the Census. "Characteristics of Households and Persons Receiving Noncash Benefits," *op. cit.*
16. Data on child care were provided by the Office of Assistant Secretary for Policy and Evaluation, U.S. Department of Health and Human Services.
17. Data and program information on education were provided by the U.S. Department of Education.
18. Data and program information on crime and law enforcement were provided by the Office of Legislative Affairs, U.S. Department of Justice.

Chapter V

Urban Physical Environment

This chapter describes how the Administration's efforts to promote economic recovery and restore balance in the Federal system have affected various aspects of the urban physical environment, including housing, State and local infrastructure, and air and water quality. State and local responses to these policies and initiatives are also detailed.

Housing

President Reagan affirmed the implicit relationship between the housing needs of the Nation and its economic health when he stated, "I believe that our citizens should have a real opportunity to live in decent, affordable housing. I pledge to foster good housing for all Americans through sound economic policies."[1]

With the dramatic drop in interest rates and inflation, housing starts reached 1.7 million units in 1983, a 60 percent improvement over the previous year. The outlook for 1984 is equally promising. Starts in the first quarter of 1984 averaged 1.95 million units on a seasonally adjusted annual basis. In addition, an estimated 290,000 units of manufactured housing will be produced in 1984. The dramatic drop in mortgage rates brought about by the President's Economic Recovery Program, from 17.5 percent to 12 percent for FHA-insured mortgages, has made homeownership possible for close to five million families previously unable to afford a house.

For low-income families, approximately 3.3 million housing units were receiving assistance from HUD housing programs by the end of 1981. This number is projected to grow to four million by the end of 1985.

For both home buyers and low-income persons, the Reagan Administration has focused on making housing more affordable. This focus marks an important turning point in the Nation's housing policy and is the Administration's response to current housing trends. Previous policy aimed at increasing the supply and quality of housing. However, housing trends reveal that adequacy and availability are largely problems of the past and that affordability is now the Nation's primary housing problem.

Housing trends are summarized briefly below.

Housing Availability

The Nation's year-round housing stock increased by 19 percent between 1973 and 1981, an increase of 14.3 million units. Most of the net additions to the housing stock occurred in the rapidly growing regions of the South and West and in the suburbs of metropolitan areas (Exhibit V-1). In the same period, owner-occupied units increased more rapidly than renter-occupied units, from 64.4 percent of all occupied units in 1973 to 65.3 percent in 1981. This surge in homeownership was all the more remarkable given the accelerated rate of household formation led by household types not traditionally homeowners—that is, singles and female-headed families.

EXHIBIT V-1

Year-Round Housing Units by Location: 1973 and 1981

(Number of Units in Millions)

	Number of Units		Change in Units: 1973 1981	
	1973	1981	Number	Percent
Location				
All Units	75.3	89.6	14.3	19.0%
By Region:				
Northeast	17.4	19.0	1.6	9.2
North Central	20.2	23.2	3.0	14.9
South	24.0	29.8	5.8	24.2
West	13.8	17.6	3.8	27.5
By SMSA Location:				
In SMSA's	51.0	60.5	9.5	18.6
Inside Central Cities	24.1	26.5	2.4	10.0
Outside Central Cities	26.9	34.0	7.1	26.4
Outside SMSA's	24.3	29.1	4.8	19.8

Source: U.S. Department of Housing and Urban Development, *1983 National Housing Production Report*, Table 6-2.

Federal income tax deductions for mortgage interest and property tax expenditures continue to enhance the demand for housing. Another factor fueling the demand during most of the 1970's was the perception that homeownership was a hedge against inflation, since houses were one of the most rapidly appreciating investments available. Between 1979 and 1981, however, as interest rates soared to all-time highs, the purchase of a home became more difficult, if not impossible, for an increasing number of households. As a consequence of this reduced demand, house value increases have moderated, falling from the annual increases of 12 to 14 percent in 1976 to 1979 period to around 8 percent in 1981.

Gross rents (rent plus utilities) also increased in this period, but at a slower rate. Although rental markets were tight in some areas, the market has generally responded by making housing available where it is needed. Census and Annual Housing Survey data show that slow-growth and declining areas tend to have low vacancy rates while fast-growth areas tend to have high vacancy rates as newly built units slowly become fully rented.

Housing Adequacy

Severely inadequate housing units lack some or all plumbing facilities, while moderately inadequate housing units tend to need better maintenance. By either criterion, housing quality has improved markedly in recent decades. In 1983, only 2.7 percent of all metropolitan households lived in severely inadequate units, while an additional 4.8 percent lived in moderately inadequate units. These percentages were higher for renters than for owners and were higher still for very low-income renters (those with incomes less than 50 percent of their metropolitan area's median income). For example, 7.5 percent of these households lived in severely inadequate units, while an additional 9.7 percent lived in moderately inadequate units. Another 6.4 percent of these households lived in physically adequate units that were overcrowded. While there is continuing need for improvement in housing quality, the most severe housing problem facing very low-income households is housing affordability.

Housing Affordability

Problems of housing affordability have escalated in recent years, especially for low-income households and first-time home buyers. While income increased for homeowners by 90 percent between 1973 and 1981, housing costs have risen more rapidly. Although renter income increased by 58 percent, gross rents (rent plus utilities) increased less rapidly than income. However, because more households have turned to homeownership, the proportion of the remaining renters paying a sizable share of their income for rent has increased. In 1981, 54 percent of all renters paid more than 25 percent of their incomes for rent compared to 41 percent in 1973. In metropolitan areas, 56 percent of very low-income households who lived in otherwise adequate housing paid more than 30 percent of their incomes for rent; this compares with 10 percent of the remaining metropolitan renter households. Of the 6.95 million very low-income households in metropolitan areas with a housing problem in 1981, fully 70 percent lived in adequate and uncrowded housing, but paid more than 30 percent of their incomes for rent.

Rental Housing

Rental housing provides shelter for 29 million American households; it constitutes more than one-third of all occupied units, but more than half of all occupied units in central cities of metropolitan areas. Unsubsidized rental units are the major source of housing for renters, constituting almost 90 percent of the Nation's rental housing stock.

During the 1970's, concern was frequently voiced about a rental housing crisis, with frequent assertions that the rental stock was decreasing due to production shortfalls, conversions to condominiums, and widespread abandonment. In fact, the United States rental housing stock grew substantially every year, averaging some 400,000 additional units annually. In 1981, about 600,000 rental units were added. The same general trend occurred inside central cities as well as outside them.

Preliminary data for 1983 indicate that about 135,000 new, unsubsidized rental apartments were completed, accounting for almost half of all new multifamily construction. This represents a 15 percent increase over 1982. In addition, the rental vacancy rate continues to remain well above the normal five percent mark; for some types of units, the vacancy rate exceeds six percent.

Markets do exist in which rent controls, high prices, or other market-distorting mechanisms have combined to reduce the supply of rental housing, particularly for lower income households. However, the overwhelming weight of available evidence indicates no current or long-run shortage of rental housing in the United States, although there may be shortages in particular rental markets. [2]

Low-Income Housing

The poor primarily are confronted with problems of affordability: they cannot afford to pay for standard quality housing that is available. The Administration is pursuing three avenues of remedy to help poor families: first, it is expanding the number of households receiving housing assistance; it also is taking steps to assure that housing aid goes to families that have the greatest need; and third, it is providing new construction and housing rehabilitation funds to those few groups and areas whose production and housing stocks needs are not being served by the private market.

The Reagan Administration has been steadily increasing the number of households residing in units receiving assistance payments. These payments are in several forms: direct assistance to tenants under the Section 8 program, public housing debt service, operating subsidy, lease payments, payment of interest rate subsidies to projects reserved for low-income tenants, or some combination of two of the above subsidies. The number of families assisted by these mechanisms has grown from 3.2 million households in Fiscal Year 1981 to 3.7 million households in Fiscal Year 1983. The number of assisted households will approach four million by Fiscal Year 1985.

Funds appropriated for housing assistance in Fiscal Year 1984 and requested by the Department in Fiscal Year 1985 will support approximately 100,000 additional households in each of these years. The annual increase of 100,000 units was agreed upon by Congress, the Department, and the Office of Management and Budget as an orderly and significant number which will provide assistance for the Nation's 800,000 "worst case" households. "Worst case" households, identified by studies as having the most urgent shelter needs, are defined as households that are spending more than 30 percent of their income to live in substandard housing.

Voucher Program

The cornerstone of the Reagan Administration's assisted housing policy is the housing voucher program. The voucher program provides an income supplement that improves a poor family's purchasing power for shelter. This allows assisted families to seek housing in the open market like any other family shopping in the private sector.

The voucher program modifies and builds on the Section 8 Existing program which currently serves over 750,000 households. Both programs utilize the existing housing stock already in place in a community, thus sheltering a greater number of tenants on a more economic basis. The free market characteristics of the programs allow tenants a greater choice of units and communities. That makes both the voucher program and Section 8 Existing program far more effective vehicles for achieving social and racial integration. Vouchers and certificates open a greater portion of the community to low-income residency. A recent court decision recognized this superiority in programs that use existing housing when it chided a public housing authority (PHA) for concentrating on new construction when "the Section 8 Existing program . . . offered the best opportunity to solve the housing segregation problem."

The voucher program is basically very simple:

- The voucher is issued by a local public housing authority to a family or an individual eligible for housing assistance.
- The voucher allows the family to shop for decent, safe, and sanitary rental housing and guarantees payment to the landlord for a portion of the rent.
- HUD pays the difference between 30 percent of the family's adjusted gross income and a reasonable rent level for a given area.
- The subsidized family has an additional "shopping incentive" that allows it to balance cash resources with housing goals. The family may rent below the payment standard (set at the 45th percentile of an area's median rents) and pocket the savings, or it is free to spend more, should it so choose.

To appreciate the potential for effective housing assistance that is offered by the voucher program, a simple comparison of the voucher program with the costly programs of the past is useful. In Fiscal Year 1982, the Federal Government provided $4.9 billion in Section 8 New Construction budget authority to subsidize families in 33,000 low-income housing units. The same amount of budget authority would have provided 325,000 households with assistance through vouchers. The voucher subsidy, thus, is nearly 10 times more effective than Section 8 associated with new construction. The contrast is even more persuasive when one considers the need for assistance as defined by the 800,000 "worst case" households mentioned previously. The 33,000 units of new construction under Section 8 can serve only four percent of the "worst case" families, and the aid only arrives after a 12-month to 24-month construction period. Vouchers would have aided 40 percent of the "worst case" families and would have delivered that assistance much more quickly than building new units.

To guarantee that housing assistance flows to families with the greatest needs, HUD has required that most future assistance be available for families with incomes at or below 50 percent of an area's median income. In addition, the Department has made a special effort to target housing assistance to households that have had particular difficulty in participating in HUD's programs in the past. Large families traditionally have had difficulty in locating units appropriate for their needs. HUD has adjusted its fair market rents for its Section 8

Existing program to allow higher rents for apartments with three or more bedrooms. Higher rents should motivate owners of large units to participate in the Section 8 Existing program. In addition, a new Rental Rehabilitation program and a Housing Development Grant program will assign a high priority to funding projects that contain units with a large number of bedrooms.

Rental Rehabilitation

The Administration's emphasis on the use of existing housing to meet the needs of lower income families is reflected in the new Rental Rehabilitation program. Proposed by the Administration and adopted by Congress in the 1983 Housing and Urban-Rural Recovery Act, the Rental Rehabilitation program will provide $150 million to localities in both Fiscal Year 1984 and Fiscal Year 1985 to refurbish 30,000 housing units in each year.

The design of the Rental Rehabilitation program is as follows:

- The Federal Government will provide grants to State and local governments on a formula basis.

- State and local governments can design their own program to meet locally determined goals. They can use either loans or grants to developers.

- State and local governments may choose to supplement their Federal rehabilitation funds with other money—for example, Community Development Block Grant funds—or they can leverage private investment. In any case, leveraging is assured since the rental rehabilitation subsidies will not exceed half the cost of renovating the units.

- Rehabilitation assistance will be targeted to low-income neighborhoods where at least 80 percent of the rehabilitated units will be affordable and available for very low-income families.

- HUD will provide 10,000 vouchers from the voucher demonstration and as many as 20,000 Section 8 certificates as an additional resource to help communities meet their rehabilitation needs. These vouchers and certificates can either support tenants in the renovated units or be used to aid tenants displaced by rehabilitation.

The full-fledged Rental Rehabilitation program will build on a very successful demonstration program. In 1981 and 1982, a total of 185 cities and counties were selected to participate in the program. These communities chose to spend a total of $46 million of their Community Development Block Grant funds to support housing rehabilitation. HUD provided 6,700 Modified Section 8 Existing Certificates as additional support for this effort. Another 8,000 Section 8 Existing Certificates will support round three of the demonstration, which will run concurrently with the advent of the regular program. The demonstration program has proved to be a valuable resource for low-income people. After rehabilitation, 93 percent of the units were brought onto the market within the Section 8 fair market rents and 82 percent of the units are occupied by low-income households.

Tax Incentives for Private Production of Rental Housing

Changes in the treatment of income from rental properties under the Economic Recovery Tax Act (ERTA) have greatly increased profitability of rental housing, with important implications for urban areas and their large rental stock. New provisions in the tax code increase the rate at which both new and existing properties can be depreciated by allowing investors to use a 15-year capital recovery period.

The accelerated depreciation rate was increased from 125 percent to 175 percent of declining balance for existing rental properties and decreased from 200 percent to 175 percent for new units. Low-income rental housing can now be depreciated using the 200 percent declining balance method. Other provisions established a 10-year amortization of construction period property tax and interest expenses and reduced the amount of capital gain taxed as ordinary income on a sale of the property.

At current rates, it is estimated that with 13 percent mortgage interest, these tax changes make possible a long-term reduction in rents of approximately 40 percent through increased supply of rental units. Most investment analysts maintain that, in the long term, at least some of the special tax benefits available to rental housing relative to competing investment opportunities are passed through to renter households in the form of reduced rents.

Included in ERTA was an increase in the investment tax credit for certified historic rehabilitation from 10 to 25 percent; under the new law a 20 percent tax credit is permitted for rehabilitation of nonresidential buildings at least 40 years old and a 15 percent credit for rehabilitation of buildings at least 30 years old. These credits were included specifically to "help revitalize the economic prospects of older locations and prevent the decay and deterioration of distressed urban areas."[3]

Success of this particular tax subsidy program is evident from the fact that nearly 2,000 projects qualified for the historic rehabilitation tax credit during the first three quarters of FY 1983 alone, representing total investment of some $1.3 billion. More than one-third of the rehabilitated historic housing has been made available to low- and moderate-income households.

Housing Development Grant Program

The 1983 Housing and Urban-Rural Recovery Act also authorizes a Housing Development Grant program for the construction of new units in communities deemed to be suffering from a severe shortage of rental housing. The program is funded at $200 million for Fiscal Year 1984 and $115 for Fiscal Year 1985.

Eligible cities to participate in this program will be determined by objectively measurable criteria provided for under the statute: the extent of poverty, the extent of occupancy of physically inadequate housing by lower income families, the extent of housing overcrowding experienced by lower income families, the level and duration of rental housing vacancies, and the extent of the lag between the estimated need for and the production of new rental housing. In addition to eligible cities, otherwise ineligible cities can submit projects for funding if they meet a special housing need or contribute to neighborhood preservation goals. Grant awards will be made to cities, urban counties, or States acting on behalf of cities and urban counties. Grants will be made on the basis of a national competition.

Housing for the Elderly and Handicapped

The Administration recognizes that private production may not be sufficient to meet the special needs of elderly households. Therefore, it is continuing to support Section 8 new construction subsidies and direct loans for the Section 202 program for the handicapped and the elderly.

Since reactivation of this program in 1974, almost $6 billion in Section 202 funding has allowed construction for 2,451 projects with 147,070 units. In Fiscal Year 1983, 322 projects with 14,035 units received fund reservations totaling $633.3 million. Approximately $666 million for the development of 14,000 units will be available for fund reservation in Fiscal Year 1984. The Administration has requested funding for an additional 10,000 units for Fiscal Year 1985.

Public Housing

Public housing is another important component of America's housing assistance network. The Administration views the existing public housing stock as a valuable resource. Currently there are over 3.5 million people living in the 1.2 million units of public housing. Ninety percent of the public housing units in the United States are well managed, are in good repair, and are a cost-effective source of assisted housing. For the 10 percent of the units that are having problems, the Administration is working hard to assure that there are no vacant or substandard units.

The priority that public housing has within the Department of Housing and Urban Development is reflected in the creation in 1983 of an independent Office for Public and Indian Housing with its own Assistant Secretary.

The Department is making every effort to preserve and maintain the existing cost-effective public housing stock. To achieve this goal, HUD has urged local public housing agencies to start construction on the $2.1 billion in modernization projects that are approved but unstarted. In Fiscal Year 1983, $2.6 billion in new modernization money was made available. An additional $1.55 billion in modernization money will be distributed in Fiscal Year 1984.

Congress has authorized 5,000 units of public housing new construction and 2,500 units of Indian housing new construction in Fiscal Year 1984. In addition, the Department is bringing to a start all feasible new construction projects already reserved. In many instances, HUD is offering local agencies a choice of whether to proceed with new construction or whether to swap their new construction units for Section 8 Existing Certificates or modernization funds.

HUD provides public housing authorities with operating subsidies to meet the day-to-day needs of PHA projects and to make the repairs and replacements necessary for the smooth operation of these projects. HUD is providing $1.2 billion in operating subsidies for Fiscal Year 1984. HUD also has encouraged PHA's to adopt cost-reduction measures and to institute management reforms in their use of operating subsidies. For Fiscal Year 1983, these initiatives helped to reduce obligations for operating subsidies by $339 million.

HUD is acting decisively to improve public housing management where local PHA's have needed help. This effort is concentrated on larger "troubled PHA's"—those with especially severe financial and operational problems. It includes intensive monitoring and technical assistance. Although appropriate sanctions are invoked where necessary to obtain PHA compliance with legal requirements, for the most part this effort involves cooperation between the locality and HUD toward common program goals.

On the local level, the involvement of the local government, the tenants, and the private sector—as well as the PHA itself—is being stressed. The Department has sent HUD teams to the localities to improve management, or, in drastic circumstances, has installed private management to rescue a PHA which is in danger of serious financial or physical deterioration. The paramount goal in these efforts is to protect the availability of the units and to further the interests of the assisted tenants. Some 21 large PHA's are now classified as "troubled," but 26 other large PHA's have been able to work themselves out of this classification as a result of successful Federal-local cooperation.

The Comprehensive Improvement Assistance Program (CIAP) is a particularly valuable resource, providing funds for special management and physical improvements for projects with long-term physical and social viability. Since 1980 HUD has provided $8.6 billion to PHA's to modernize public housing.

Local authority and responsibility for public housing are receiving new emphasis under the concept of local-Federal partnership. Although HUD recognizes its responsibility to ensure compliance with the requirements of Federal law, there is a wide margin for legitimate local discretion to meet the needs and preferences of particular communities.

Working with PHA's, tenants, local governments, and the private sector, the Administration is thus seeking to strike a proper balance between the roles of the Federal Government and the locality. Particular emphasis is being given—for "troubled PHA's" and the program in general—to the role of the local government in providing services, support, and technical assistance to the PHA tenants. New emphasis is also being given to the provision of tenant services through local public and private agencies.

In summation, the Administration's housing policy for low-income people is a comprehensive approach which relies primarily on vouchers but also makes use of construction and rehabilitation programs when unique needs in local market conditions warrant.

Increasing Homeownership

The Administration's emphasis on making home buying more affordable has focused on serving those Americans who are either unserved or underserved in the private market—first-time home buyers, low- and moderate-income home buyers, and buyers of inner-city properties. For this group, HUD now allows lenders who insure mortgages through the Federal Housing Administration (FHA) to use several innovative mortgage instruments:

- Shared Equity Mortgages, in which investors share the monthly mortgage payment in return for a share of the tax benefits and the equity of the home at the time of sale.

- Graduated Payment Mortgages, which allow payments to increase as the homeowner's income increases, in concert with builder subsidies of interest rates on these mortgages.

- Growing Equity Mortgages, in which the homeowner pays off the mortgage more rapidly in exchange for a lower interest rate.

HUD has also obtained congressional approval for use of adjustable rate mortgages, which allow the interest rate to fluctuate up or down to reflect current market conditions. HUD is evaluating the market attractiveness of home equity conversion mortgages (Reverse Annuity Mortgages) for elderly homeowners, and expects to make a report to Congress in FY 1985. Such a mortgage is designed to reduce the financial hardships of elderly homeowners by permitting them to tap accumulated equity to meet such expenses as home maintenance, property taxes, utilities, and other housing expenses without giving up their property.

HUD also has relaxed its underwriting standards to give young families a better opportunity to qualify for loans. Underwriting criteria for eligibility have been relaxed from 35 percent for housing expenses and 50 percent of total fixed obligations to 38 percent and 53 percent respectively. In addition, the Housing and Urban-Rural Recovery Act of 1983 contains the Department proposal for lower downpayments on homes with a value of $50,000 or less. This change will lower the downpayment on a $50,000 house from $2,000 to $1,500, a reduction of 25 percent. This is a significant improvement for the first-time homebuyer seeking entry-level housing.

In addition to targeting FHA insurance, HUD is taking important steps to make its insurance programs adopt private market practices and thus make its programs more efficient. One such change was adopted in the Housing and Urban-Rural Recovery Act. FHA no longer will set a fixed interest rate for its mortgage programs. Instead, the interest rate will follow the determination of the free market with the lender, buyer, and seller settling upon an appropriate mortgage rate and points through open negotiations. The change should help reduce the large number of points frequently associated with FHA transactions. These points were often reflected in a higher sales price and caused artificial inflation of home prices. In some instances, high points made sellers unwilling to entertain contracts from FHA purchasers. Now FHA purchasers will benefit from lower home prices and a greater choice of housing units.

To better serve all borrowers, HUD is seeking to privatize its operations. It is doing this through a partnership with the lending community. For single family homes, a process has been instituted called Direct Endorsement. The underwriting of such loans is actually done by the private lender. The loan package is then returned to HUD where, after a few basic items are checked, HUD endorses a loan. This change will provide much quicker service for the home buyer. It eliminates the application process whereby both lender and HUD make decisions. The time is saved that would be spent transmitting documents between the lender and HUD, often several times in the course of one application. And, of course, the time which would have been consumed in HUD processing is saved. Currently, 36 percent of FHA insurance is being placed through direct endorsement.

HUD considers manufactured housing to be a vital factor in providing the opportunity for Americans to fulfill their dream of homeownership. FHA Title I insurance is an important tool for financing manufactured homes. The Department is continuing to work to improve the Title I program. The new Housing and Urban-Rural Recovery Act implements many of this Administration's initiatives on manufactured housing. For example, the mortgage limit for the purchase of a manufactured home was increased from a maximum of $22,500 for a single section and a maximum of $35,000 for a multisection home to a maximum of $40,500 for either size. The mortgage limit has increased from $35,000 ($47,500 for two or more sections) to $54,000 for a single or multisection manufactured home and lot. The maximum dollar amounts may be increased in high-cost areas.

The Administration took another important step for manufactured housing when it extended Title II mortgage insurance to manufactured homes built to the HUD code and placed on a permanent foundation. Purchasers of a manufactured home now have the advantage of a lower interest rate and a longer loan term. They can finance a larger amount for the same monthly payment.

Expanding the Sources of Housing Finance

Led by Secretary Samuel R. Pierce, Jr., the Administration has engaged in an extensive effort to expand the sources of housing finance by reaching out to major untapped sources in the capital markets, such as private pension funds and foreign investors. Each $1 billion of new funding attracted to mortgage investments, through mortgage-backed securities or other investments in the mortgage secondary market, can provide financing for as many as 20,000 homes. This outreach effort comprised four main elements: elimination of regulatory restrictions; a major marketing effort aimed at pension fund managers, investment advisers, and other capital market participants; improvement of housing investment instruments; and overcoming barriers to acceptance of American investment instruments on international capital markets.

In the regulatory sphere, HUD has worked with the Department of Labor since 1981 to bring about a series of exemptions to regulations under the Employment Retirement Income Security Act (ERISA). These exemptions enable private pension funds to engage freely in almost all normal business transactions involving mortgages. This makes it possible for an increasing proportion of the over $700 billion of private pension fund assets to be invested in housing. To communicate with major capital market participants, HUD has developed a pioneering effort, in league with the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and private secondary market participants, to inform pension fund executives about the new freedom under Department of Labor regulations, about new investment instruments in the secondary market, and about the advantages of mortgage investments. This has been accomplished through a series of major conferences, intensive work sessions, and publication of a reference volume on the value of mortgage-related investments.

In an example of improvement of housing investment instruments, the Government National Mortgage Association (GNMA) has developed a new, modernized form of GNMA security, the GNMA II, contributing to this effort to meet the needs of modern investors. GNMA II provides GNMA securities, the largest part of the secondary market, with a centralized accounting and payment system and the ability to efficiently manage large pools of mortgages. With over half of all mortgages now originated for sale in the secondary market, such measures provide a valuable and needed improvement.

Beyond the domestic housing market, HUD has reached out to foreign markets to strengthen housing finance. GNMA securities are now listed on two foreign exchanges, in Luxembourg and Singapore, and are being sold in Japan as well as Europe. All of these activities are expected to contribute substantially to a consistent, even flow of funds from the capital markets into housing. As one sign of this type of movement, a HUD monitoring survey commissioned in 1983 indicated that private pension funds increased the amount of assets invested in mortgages by more than 58 percent between 1980 and 1983.

Excessive Regulations

In addition to addressing long-term needs for housing finance, the Reagan Administration has also confronted another structural problem which can drive up the cost of housing—excessive regulation. Recent studies have found that excessive regulation can increase the final cost of a home by as much as 25 percent. On the Federal level, HUD has among other efforts streamlined its single and multifamily environmental regulations and simplified its minimum property standards.

Joint Venture for Affordable Housing

One of the best expressions of the deregulatory spirit at HUD is found in the Joint Venture for Affordable Housing program instituted by Secretary Pierce. The Joint Venture attacks overregulation at the State and local levels. It provides concrete proof that tangible savings are possible through the reduction of regulations. Savings come from changes made almost entirely by local governments, builders and developers, financial institutions, and citizens' groups working together to reduce local restraints. HUD's role is as a catalyst—encouraging local partnerships, providing technical assistance, and documenting the process for other communities to use.

In its first 18 months, the program has had significant accomplishments in three main areas:

- By the end of 1983, more than 30 States had demonstration project sites. Among the projects which have begun to sell their homes, the Phoenix, Arizona, site had sold more than 175 homes, including all the townhouse units; 60 homes have been sold in the Sioux Falls, S.D., project, and 35 homes have been sold in Marion, Ark. Early sales figures show that the demonstration units are selling at prices $5,000 to $10,000 below those of comparable units in the local market.

- The message that regulatory reform can indeed cut costs has been spread through numerous conferences and publications organized and produced by such organizations as the National Governors Association, the National Conference of State Legislators, the Council of State Community Affairs Agencies, the National Association of Counties, the International City Management Association, the American Planning Association, and the Urban Land Institute.

- Building on the interest in regulatory reform developed through the Joint Venture, the National Association of Home Builders has created its own Regulatory Reform Task Force to bring the strength of its 800 local members to bear on the problems of regulatory reform in their own communities.

Fair Housing

The persistence of racial segregation and discrimination in American cities and suburbs constitutes one of the major challenges facing policymakers today. Preliminary evidence from the 1980 Census indicates that while racial segregation remains high in America's largest cities, it has nevertheless declined. Between 1970 and 1980, an index of segregation in 28 cities declined from 87 to 81.[4] In some cities, including Nashville, Tenn., Richmond, Va., Columbus, Ohio, and Oakland, Calif., the index declined by more than 10 points. These declines represent the first major break in level of segregation, and suggest that some of the underlying forces supporting residential segregation may have changed in the last decade.

One of the major factors related to the racial concentration of blacks in America has been their virtual exclusion from suburbs. In the decade of the 1970's, however, blacks have moved in increasing numbers into suburbs. Blacks were only 4.6 percent of all suburban residents in 1970, but were 6.1 percent by 1980. A total of 5.5 million blacks now live in the suburbs of 239 metropolitan areas. Much of this dispersal appears to represent an extension of inner-city black neighborhoods, but blacks are also moving in modest numbers into previously all-white areas.

There is ample evidence, however, that racial discrimination persists in both the rental and sales markets in many cities. In 1977, for example, a major HUD study using testers found 15 percent of sales agents and 27 percent of rental project managers discriminated against black homeseekers in 40 metropolitan areas. Another study in Dallas in 1978 found that Mexican-Americans were likely to experience the same level of discrimination as blacks. Other studies using testers have found similar levels of discrimination in Boston, Denver, Baltimore, and Columbus.

Each of these studies indicates that minorities can expect to experience significant amounts of discrimination in search for housing 15 years after passage of the Fair Housing Act. Such discrimination constitutes a fundamental violation of the rights of American citizens to equal treatment, information, service, and courtesy in the process of finding a new home.

The Administration is firmly committed to equal treatment for all citizens through the effective enforcement of laws prohibiting discrimination in federally assisted programs as well as in the sale, rental, or financing of housing in the private sector. This commitment has been implemented through a number of important new initiatives by the Administration. It has:

- Concentrated its attention and resources on the Federal Government's role of protecting the fundamental civil rights guaranteed all individuals by the Constitution and the fair housing law.
- Acted to reduce duplication, unnecessary reporting requirements, inflexible regulations, and ineffective programs.
- Increased the focus upon voluntary compliance with civil rights laws through increased technical assistance and incentives.
- Strengthened the role of State and local fair housing enforcement agencies in cooperation with HUD in assuring fair housing.
- Aggressively pursued new amendments to the fair housing law to punish violators who discriminate, including new protections for handicapped persons.
- Supported recent Supreme Court rulings sanctioning the use of testers to identify the vestiges of racial discrimination.
- Funded demonstration programs under which private fair housing groups provide testing evidence to HUD to increase the effectiveness of HUD's enforcement process.
- Worked to improve the coordination of Section 504 of the Rehabilitation Act of 1973 which prohibits discrimination on the basis of handicap in all federally assisted programs and activities.

A number of these initiatives warrant further description. For example, the Administration has recently proposed that Congress amend the 1968 Fair Housing Act to strengthen its enforcement provisions. The proposal would (1) measurably strengthen the HUD conciliation process, (2) greatly enhance the Attorney General's litigating authority by empowering him to sue on behalf of individual claimants and to seek the imposition of substantial penalties for violations, and (3) extend to private litigants a stronger right of independent action that allows for the award of punitive damages and the recovery of attorney fees where liability is found.

During 1981 and 1982, HUD continued its efforts to expand the involvement of State and local agencies in assuring fair housing. HUD obligated over $5 million in 1982 alone for direct grants and technical assistance to help State and local agencies develop procedures, train staff, and take other measures necessary to process fair housing complaints. As a result, the number of State and local agencies participating in charge processing grew from 42 to 67, an increase of 60 percent in 1982. Through 1985, HUD expects to increase the number of participating State and local agencies to 100—more than tripling the number in the program at the beginning of 1981—and further increasing the number of Title VIII complaints processed at the State and local rather than the Federal level.

These investments in State and local government capacity will reduce the incidence of violations which give rise to complaints. When complaints are filed, more will be resolved by the States and communities in which the parties reside. During 1983, for example, HUD referred 57 percent of the complaints it received to State and local agencies for processing (compared with only 13 percent in 1980), and State and local agencies were responsible for over 52 percent of all voluntary complaint settlements achieved under Title VIII. As a result of this cooperation between HUD and State and local agencies, there has been a substantial increase in the service provided to persons filing complaints under Title VIII, with 48 percent more complaints closed in 1983 than in 1980.

In the areas of increasing voluntary cooperation with fair housing objectives, this Administration has promoted the first funding or "seed money" for local Community Housing Resource Boards. These Boards initiate affirmative marketing and other voluntary efforts to assure fair housing. Some 600 of these Boards were in existence at the end of 1982.

The Department of Justice's Civil Rights Division is responsible for litigating alleged pattern and practice violations of Title VIII. During 1981, the Civil Rights Division initiated 60 investigations of suspected patterns and practices of housing discrimination and completed 45. Litigation by the Division resulted in court orders and settlements mandating future nondiscrimination in the sale or rental of over 9,000 housing units.

The Administration is proud of its commitment to safeguard the civil rights of all citizens with regard to housing. It recognizes that unless there is equal housing opportunity for all persons, the market will not function properly, and those who are discriminated against will suffer.

State and Local Actions

Most States have single-family mortgage purchase programs and tax-exempt financed multifamily construction and permanent finance loan programs.

Many States have recently taken action to develop and implement new policy and programs for improving housing for their residents. Some States have created new secondary mortgage market instruments which can be used to make State pension funds available for housing finance. For example, in 1981, the State of Connecticut established Yankee Mac, which purchases mortgages and issues mortgage-backed securities for purchase by the Connecticut Pension Fund, among others. Yankee Mac operates in a fashion similar to most conventional mortgage-backed security programs. Its first offer to purchase was made in June 1981 and, by February 1983, the pension fund had invested about $240 million in mortgages, which provided financing for 2,500 households. New construction accounted for $80 million of the total, representing 1,200 new homes.

South Carolina has also recently begun to invest some of its pension assets in securities backed by South Carolina residential mortgages. Its initial offering in April 1981 was for $25 million at an interest rate of 13.25 percent. By February 1983, the State had committed almost $140 million to this program. This program provides both a secure investment for the State's pension fund and mortgage funds for South Carolina residents. In fact, most State pension funds have mortgage investments, with some investing a significant portion of their total assets in housing-related areas—for example, Michigan, 48.6 percent; Missouri, 43.1 percent; Montana, 43.7 percent; Colorado, 34.9 percent.

Several local governments have also committed public pension funds to housing investments. A key example is a $50 million commitment of police pension funds by New York City to invest in the acquisition and rehabilitation of about 5,000 multifamily housing units. Funds will be made available for emergency loans to unemployed homeowners to minimize loan delinquencies and to avoid foreclosure sales.

Other States have concentrated on other aspects of housing for their residents. For example, the State of Pennsylvania is developing a plan to reduce mortgage foreclosures caused by unemployment with a program called "HAND-UP" (Housing Assistance Needed by Distressed and Unemployed Pennsylvanians). This program will provide $150 million from lottery fund revenues to a special account for emergency financial assistance. Funds will be made available for emergency loans to unemployed homeowners to minimize loan delinquencies and to avoid foreclosure sales.

The State of New Jersey recently established an Office of Housing Advocacy, which will provide information and planning in housing affordability, production, and advocacy. The office also recently sponsored a conference on affordable housing and republished its highly successful *Affordable Housing Handbook.* Florida's Department of Community Affairs has just published a similar report, *Promoting Affordable Housing: Possible Actions for Local Governments.* This report looks at what local governments can do to encourage the production of more affordable housing.

Neighborhood Revitalization

Private reinvestment in inner-city neigborhoods increased significantly during the 1970's as a consequence of both gentrification (investment in older neighborhoods by middle-income households) and incumbent upgrading (investment in their neighborhoods by current residents).

While gentrification raised concern about displacement of the poor, a recent study of 22 metropolitan areas confirms that gentrification has been confined to relatively few neighborhoods, generally those close to the central business district or having architecturally attractive housing. It found that the influx of middle-income households into central cities between 1969 and 1979 was insufficient to reverse a city's decline in median income, but it was sufficient to increase the number of Census tracts having a median income above 125 percent of the metropolitan area's median. Boston, Los Angeles, Milwaukee, Minneapolis, New York, San Francisco, Oakland, and Washington, D.C., all showed a slight increase in the number of high-income tracts. Every city studied had some tracts where median income increased more than five percent; however, none had more Census tracts with increasing than decreasing median incomes.

Similarly, every city studied had some Census tracts where the minority percentage of the population decreased. However, overall, in virtually all of the cities, the minority percentage of the population increased. The increasing attractiveness of central cities to middle-income whites complements the shift occurring in central city economies to service-based activities; it also complements the increasing attractiveness and accessibility of suburbs to minority households.

At the same time, many neighborhoods are undergoing revitalization as a consequence of investment by "incumbent" residents. Occurring in moderate and low-income areas, incumbent upgrading usually entails organization of residents to instill greater confidence in the neighborhood. Churches, philanthropic organizations, and civic groups are frequently the catalysts.

Many vehicles exist for the promotion of incumbent upgrading. One of the most important is the Community Development Block Grant program. Another is the Neighborhood Housing Services Program (NHS), established by the Neighborhood Reinvestment Corporation and focused largely on resident homeowners. More than 200 local NHS programs have been set up nationally in areas showing incipient decline and disinvestment. Each involves the designation of a target area and the formation of an NHS board composed of target-area residents, private sector representatives, and local government officials. A rehabilitation and improvement plan is prepared, and citizens are assisted in obtaining private financing to upgrade their properties. A revolving loan pool provides below-market interest loans for some residents who are unable to qualify for private financing.

HUD's rental rehabilitation program, mentioned in the previous section, is a vehicle for neighborhood revitalization that will benefit low-income renters. Under this new program, rehabilitation grants will be made, on a matching basis, to owners of small rental buildings. To lower the cost of rehabilitation, rental vouchers will be offered to low-income families to minimize displacement and assure that the housing remains available to them. This program will strengthen local efforts to stabilize and preserve low-income neighborhoods.

The Administration continues to administer a demonstration program designed to reflect the precepts of the Rental Rehabilitation program. Almost 200 cities, counties, and States are currently participating in the Demonstration, and almost 300 have been approved to participate in the third round, beginning in mid-1984.

So far more than 1,300 units have been rehabilitated through the Demonstration and an additional 5,000 units have been selected by local officials and are in some stage of the rehabilitation process. The varying size of the properties rehabilitated through demonstration is testimony to the flexibility of the program's concept. Although the rehabilitated properties typically contain between two and four units, New York City has successfully rehabilitated buildings with more than 25 units; and Baton Rouge, La., and South Bend, Ind., have used the Demonstration to renovate single-family rental properties occupied by lower income persons.

Before rehabilitation most of the properties were occupied, although in a few cases the Demonstration actually added units to the local community's housing stock. In New Rochelle, N.Y., a deferred payment loan was used to supplement an insurance settlement and a market rate loan from a savings and loan and put four fire-gutted units back in the market. The same locality also used the Demonstration to turn uninhabitable space above a delicatessen into safe, sanitary, and decent housing.

A principal public source of support for housing rehabilitation is the Community Development Block Grant (CDBG) program. In fact, rehabilitation has been the largest single CDBG-supported activity for the last four years. In FY 1983, for example, approximately $921 million, or 36 percent of all CDBG funding going to entitlement cities, went for housing rehabilitation.

Infrastructure

President Reagan's 1982 *Urban Policy Report* documented a decade and a half of declining levels of capital spending by State and local governments for infrastructure needs. The trends were even more marked for maintenance spending and were especially apparent in the Nation's large cities. The decline in capital and maintenance spending was accompanied by erosion in the condition and performance of the urban capital plants, an erosion particularly evident in older cities.

Nevertheless, despite these trends and their impact on the Nation's infrastructure, a number of studies undertaken in the past two years have concluded that the Nation's infrastructure problem is generally manageable.

In a joint survey of mayors and city managers, the National League of Cities (NLC) and the United States Conference of Mayors (USCM) concluded:

This survey shows that, overall, the cost of meeting high priority public facility needs in the Nation's cities is relatively modest. This is a critical finding. This survey did not attempt to produce a total cost estimate—a "bottom line"—for all infrastructure needs in America's cities. Such estimates produced by others have run into the trillions of dollars. These are daunting figures, almost paralyzing in their immensity. But this survey shows that a steady but manageable investment over a number of years could and would enable communities to start work on the capital assets ranked as highest priorities by the respondents.

There is no short-term, inexpensive, or easy solution to America's urban infrastructure problems. But there can be a solution, and it can be managed. [5]

A 1983 ACIR study which reviewed other recent studies found that although "serious problems do exist in various functional categories and in various places, there is currently no nationwide, general crisis confronting the public physical infrastructure, nor does a crisis appear imminent. . . . Most infrastructure problems (which vary from place to place) are manageable given existing financing mechanisms."[6]

These studies are important not only in pointing out the manageability of the Nation's infrastructure problem, but for the fact that several of these studies are undertaken not by the usual sort of research institute but by national public interest groups, State municipal leagues, and Governors' offices. This indicates a growing public awareness of the general condition of our infrastructure and the important role it plays in the economic health of cities. Even more important, this heightened public awareness is helping to bring about a shift in State and local spending priorities.

There is clear evidence that in the past two years States and localities have been taking action to address their infrastructure concerns. Many of these actions, which we will examine in greater detail, have been made possible by the success of the President's Economic Recovery Program, which has increased the ability of States and local governments to pay for needed improvements.

Reagan Administration Initiatives

On the Federal level, the Reagan Administration has responded to the national heightened concern about our infrastructure needs with the Surface Transportation Assistance Act of 1982. This Act increases user fees to provide for (1) completion of all segments of the interstate system by the early 1990's, (2) spending increases of 144 percent over levels prior to the Act for rehabilitating and preserving existing segments of the interstate system, and (3) a 90 percent increase in budget authority from 1982 to 1986 for primary highways and bridges. In addition, one-fifth of the new capital assistance user fees provides approximately $1.1 billion annually for mass transit capital assistance, discussed in the next section.

The Surface Transportation Assistance Act increased funding in FY 1983 for the Federal-aid highway program by approximately 50 percent over 1982 levels of $8.2 billion. This Administration initiative, financed primarily by user fees, has increased Federal highway and transit infrastructure funding about $11.5 billion in FY 1982 to $18 billion in FY 1984.

In addition, in accord with other Urban Policy principles, the Administration has taken steps to foster public-private cooperation on infrastructure needs and to reduce Federal intrusion in State and local government administration of infrastructure programs.

To foster public-private cooperation, the Joint Center for Urban Mobility was established in 1982 at Rice University in Houston, Texas, through the joint sponsorship of the Federal Highway Administration (FHWA), Urban Mass Transportation Administration (UMTA), the Texas State Department of Highways and Public Transportation, and local public and private agencies. The purpose of the center is to develop and disseminate technical information to State and local governments on new approaches to urban transportation system development and financing.

In addition, UMTA issued a Paratransit Policy Statement which promotes the use of free-market paratransit services in responding to public needs. UMTA has also prepared a policy statement which provides guidance for the involvement of private enterprise in the transit program.

The new Section 9 Formula Grant program provides for a single grant application to be submitted annually by local officials, thus allowing local governments greater flexibility and control over their transit programs. The Act also eliminates much of the paperwork burden on local government. When applying for Section 9 funds, local governments are required only to certify that they have a local process which conforms to the minimum guidelines required to meet Federal environmental, safety maintenance, public involvement, and other standards.

For smaller urban areas, Section 9 provides Governors with the flexibility to distribute funds among areas with populations of 200,000 or less.

The Surface Transportation Assistance Act of 1982 (STAA) provided that the revenue from one cent of the five-cent increase in the user charge on motor fuel go into the Mass Transit Account off the Highway Trust Fund for capital projects that could not be funded through the Formula Grant program. Approximately $1.1 billion annually is provided for bus and rail rehabilitation and for new fixed guideway projects. This is the first dedicated and reliable source of Federal funds for public transportation.

Operating Assistance. It has been the Administration's position that transit fare and service decisions, and the subsidy requirements resulting from these decisions, are properly a local responsibility. Therefore, the Administration continues to seek the gradual phasedown of transit operating assistance. Previous budget proposals have been based on a four-year phaseout of operating assistance, which would have ended Federal operating assistance completely in FY 1985. Congress did not agree to the total elimination of operating assistance. However, operating assistance levels were reduced by 16 percent in the Surface Transportation Assistance Act of 1982 through limitations on operating assistance that vary by city size. The Administration's FY 1985 budget request again seeks an orderly phaseout of operating assistance and recognizes the different dependencies of larger and smaller communities on Federal operating assistance. The phaseout is now proposed to be completed by FY 1989.

Innovations in Community Transportation. UMTA's demonstration programs have introduced a number of innovations to improve transportation in neighborhoods and smaller communities. These innovations are intended to improve the mobility of individuals who are poorly served by conventional transit as a result of their locations, their incomes, their age, or their physical condition. When demonstrations have succeeded in providing services which satisfy particular transportation needs of neighborhood or communities, the services frequently are continued by local public/private efforts. Some of the more successful demonstrations include the following:

- A volunteer van pool program which provides vans to low income groups who pay routine maintenance and operating costs and have use of the vehicles for a variety of trip purposes.
- A taxi feeder service to provide access to conventional transit routes in low-density areas.
- User subsidies in the form of tickets that low-income individuals may purchase at reduced rates and which taxicab companies may redeem for the full fare.
- Reducing entry controls which limit the number of private bus or taxicab operators who are permitted to provide services in a particular locality.

Enhancing Tax-Exempt Financing for Public Capital Spending. The Federal Government's most important contribution to the financing of public capital investments (other than highways) by State and local governments is the exemption from Federal income tax of interest paid on securities issued by those governments. Because the interest paid on those securities is not taxable income to the lender, the obligations can be sold at substantially lower rates than if the interest were taxable.

The resulting saving in interest costs is the value of the Federal subsidy to the State or locality issuing such securities. Estimates differ as to the amount of the subsidy implicit in tax exemption. However, the available evidence suggests that the value of the subsidy to State-local issuers will be in the range of $6 to $7 billion in 1984 for securities sold to finance public capital spending (schools, roads, courthouses, and other types of public infrastructure).

Considerable attention has been given in recent years to the substantial difference ($3 to $4 billion) between $6 to $7 billion interest savings to State and local governments and the revenue loss to the Federal Government ($10 billion in FY 1984) on all outstanding State and local debts issued for public purposes. This suggests that tax exemption is not a very efficient subsidy. (The difference is acccounted for by the "excess" tax savings realized by high-income individual and institutional purchasers of tax exempts.) Historically, the inefficiency of this subsidy has enjoyed wide acceptance as a reasonable price for the assurance of the availability of the subsidy to States and localities and the freedom from Federal red tape inherent in it. In recent years, however, the intense scrutiny to which the Federal budget has been subject has focused attention on this subsidy, especially because of strong indications that its inefficiency has been increasing.

The major contributing factor has been the recent proliferation of tax-exempt bonds issued for private, rather than public, purposes. The supply of loanable funds in the tax-exempt market is much narrower than the supply in the taxable market. As a result, issuances of private-purpose bonds have the effect of bidding up the interest rates paid by all borrowers in the tax-exempt market, narrowing the spread between exempt and taxable interest rates. This reduces the value of the interest savings to State and local borrowers for public purposes at the same time it inflates the revenue loss to the Federal Government.

In light of these considerations, the Administration has supported legislation that would limit the volume of certain major types of private-purpose tax exempts. This support should not be interpreted as a lack of commitment to continued Federal assistance to State and local governments in financing public capital spending; rather, it should be viewed as an effort to enhance the value of the subsidy implicit in tax exemption. It is also important to note that the Administration supported the exclusion from the House-passed volume cap on industrial development bonds (IDB's) or tax-exempt bonds issued for such public-related purposes as port facilities, wharves, and airports, even when carried out by private entities.

State and Local Actions

Recently State and local governments have begun to act on infrastructure concerns. They have raised or earmarked funds for construction or maintenance, improved management of capital resources, and enlisted the aid of the private sector in the operation of public facilities.

In 1983, 16 States increased their motor fuel taxes and earmarked these funds for transportation, bringing to 34 the number of States which have taken similar actions since the beginning of 1981.

In 1983, New York State voters approved a $1.25 billion bond issue to support extensive construction and maintenance projects of roads and bridges to be undertaken over the next five years. In New York City alone, 20 major projects will start in the next year.

Shifts in State and local spending patterns to emphasize construction and maintenance of infrastructure are apparent, for example, in the CDBG State Block Grant created by the Reagan Administration. In 1981, under the old HUD-administered Small Cities CDBG program, when States had no input into determining small city needs and the small cities themselves were being pushed toward housing rehabilitation by the Federal Government, total spending for public facilities and improvement was $332.5 million or 35.9 percent of total funds. In 1982, when the program was turned over to the States, and cities were allowed to set their own spending priorities, such spending rose to $382.8 million or 43.4 percent of funds and continued to increase in 1983. Total spending for public facilities and improvements in 1983 rose to $422.2 million or 44.6 percent of total funds. Spending for water and sewer facilities alone rose from $150.4 million in 1981 to 256.9 million in 1983.

In the nine years the CDBG entitlement program has operated, local officials have budgeted approximately seven billion dollars to such activities. The activities supported by the CDBG program range from broad comprehensive infrastructure improvement programs to more limited and neighborhood interim assistance projects.

In addition to the CDBG program, the Urban Development Action Grant (UDAG) program is also used by local officials to make repairs and improvements to their communities' infrastructure. More than one-quarter of all UDAG grants awarded by HUD since 1978 have involved infrastructure development needed to support economic development. These projects represent approximately $778 million in Federal funding. UDAG funds for infrastructure are divided fairly evenly among the construction or improvement of water and sewer lines, streets, parking facilities, and a combined category of "other off-site improvements" including pedestrian malls and walkways and other public-access facilities.

To assist localities in obtaining needed financing, States are facilitating local access to capital markets. Some States are creating "bond banks" which permit cities to use the State's superior credit rating and access to the bond market to reduce local borrowing costs. Five States—Alaska, Maine, New Hampshire, North Dakota, and Vermont—have created such banks and are reducing local borrowing costs by as much as two percentage points. One variant on the traditional bond bank idea is provided by the State of New Jersey's qualified local bond program, which permits cities to earmark future aid allotments as a guarantee to bond-holders of future repayment. By improving the creditworthiness of local issues, the program has enabled several New Jersey cities to upgrade their credit ratings from "BAA" to "A", thereby reducing their interest costs. [7]

A financing technique increasingly adopted by both State and local governments is user charges. User charges establish a sound financing mechanism that makes access to capital markets easier, provides a steady flow of revenues for maintenance purposes, and ensures that those who benefit from the services pay the cost. Studies also show that repair and maintenance practices are better when water and sewer systems are taken out of the general budget process and entrusted to independent authorities with dedicated revenue sources. Essentially, this shields infrastructure maintenance from ongoing political and budgetary considerations. Studies of municipal water distribution systems show that management, maintenance, and conservation practices are much better in cities that charge for their water services, as compared with cities that finance water programs from general revenues. Cities that received funding under EPA's Construction Grants program are required to establish user charge systems sufficient to operate, maintain, and replace sewer systems.

Several cities have turned over operation of public facilities to private firms. A 1983 survey of 379 cities by the International City Management Association (ICMA) showed that 222 cities were using private firms, particularly in solid waste collection and disposal, street maintenance and construction, hospital operation, and public transit. A survey of 2,650 cities by the Advisory Commission on Intergovernmental Relations (ACIR) showed that 36 percent of the cities preferred contracting with a private firm for provision of services rather than shifting responsibility to government agencies. While not an option in all cases, privatizing operation of public facilities provides one way for localities to make more efficient use of their limited funds for infrastructure.

To sum up, the Reagan Administration has moved effectively to specifically assist States and localities in dealing with infrastructure needs through increased funding with increased flexibility and through technical assistance. To further facilitate State and local flexibility, the Administration is changing funding formulas to permit rehabilitation as well as new construction. States and localities are taking advantage of these Administration initiatives and the improved economy to come up with innovative and cost-effective capital investment and maintenance strategies.

The Urban Environment

Clean Air

The primary goal of Federal air quality standards is the protection of human health. [8] Secondary standards include measures to deal with such problems as visibility degradation and dirt and grime in the Nation's cities.

Air quality standards fall into two categories: (1) those that relate to pollutants from mobile sources (automotive vehicles), and (2) those related to emissions from stationary sources (factories and utility plants).

The high volume of traffic in urban areas makes automobile emissions a major source of air pollution. Since the passage of the Clean Air Act in 1963, considerable progress has been made in reducing these emissions with new car standards representing a 95 percent reduction in hydrocarbons, a 96 percent reduction in carbon monoxide, and a 76 percent reduction in nitrogen oxides.

Exposure to lead has been associated with serious adverse health consequences, particularly for children residing in cities. A new, more stringent restriction on the lead content of gasoline effective in October 1982 resulted in substantially lower lead emissions in 1983. There was a 10 percent decrease in the amount of lead used in gasoline from the previous year, producing a marked difference in urban air quality.

EPA is considering further reductions in the lead content of gasoline, including a possible ban on leaded fuel. To reduce the improper use of leaded fuel and the incidence of tampering, EPA is supporting statutory language which would make it illegal for vehicle owners to use the wrong fuel or to disable auto emission controls.

Another means to reduce pollution from mobile sources is the implementation of automotive vehicle inspection and maintenance programs in areas which exceed national standards. EPA has made it clear that it will impose Federal funding sanctions mandated by Congress on those few areas that do not implement the required inspection programs.

EPA continues to encourage industries to meet or do better than their environmental requirements through flexible approaches such as air emission trading. Using EPA's 1982 emissions trading policy, companies that reduce emissions more than required at some smokestacks can receive reduction credit to meet regulatory requirements at other stacks. EPA has approved or proposed 43 "bubbles" for an estimated $250 million in savings for the affected firms. About two-thirds of these bubbles have achieved more reduction than required.

Two major EPA goals for Fiscal 1984 and 1985 are completion of the review and revision of all air quality standards and development of new standards for hazardous air pollutants to complement an overall strategy for identifying and dealing with airborne toxics.

A major revision to a national air quality standard was proposed in March 1984. With this announcement, EPA proposed to set a standard for inhalable particles as opposed to the existing standard. This measure will provide better protection of public health because it regulates particles which may actually enter the lungs or other parts of the respiratory system.

Sulfur dioxide (SO_2) and nitrogen oxide are two of the more common pollutants from stationary sources, in particular from coal-fired electric utility plants. Without Federal clean air requirements, it is estimated that SO_2 emissions would have been 50 percent greater in 1980 than they actually were. Instead, sulfur dioxide emissions have been dropping after a peak reached in the 1970's.

Both sulfur and nitrogen oxides are recognized precursors of the acid rain phenomenon. The Administration has requested some $127 million in Federal funds for Fiscal 1985 to conduct further research into the causes and effects of acid deposition and to investigate technology that could aid in controlling its precursors. Acid rain may not only affect aquatic and forest resources but may also hasten the deterioration of buildings, statues, and other components of the built environment.

State and Local Actions

The individual States have become increasingly sophisticated in their own control efforts. Virtually all have adopted substantial air quality improvement programs and have accepted a considerable degree of delegation of program responsibility from EPA. Indeed, the States, taken as a whole, now have significantly larger

enforcement staff than the EPA and have undertaken promising initiatives in cooperation with the Federal Government. For example, in conjunction with organizations representing State and local air pollution control officials, a national air quality audit program for State agencies has been developed. EPA will continue to be involved in these cooperative efforts. In addition, clearinghouses have been established to encourage exchange of technical information among State and local agencies on control of toxic air pollutants and development and implementation of emission control regulations.

Clean Water

Since water pollution problems are typically greatest where population is most dense, the Environmental Protection Agency (EPA) has focused first on water quality problems in urban communities. EPA operates under three major laws, the Safe Drinking Water Act (which ensures that drinking waters are free from harmful contaminants), the Clean Water Act (which regulates discharges of pollutants into surface waters), and the Marine Protection, Research, and Sanctuaries Act (which provides for the safe and effective disposal of wastes at sea).

One of the ways which EPA approaches solving water pollution problems is through the construction grants program, a program that provides funding for municipal wastewater treatment plants. The construction grants program is one of the largest intergovernmental assistance programs in the Federal Government. During the last year, the Agency provided $2.43 billion to municipalities and States for the construction of sewage treatment plants.

Regulations issued in February 1984 simplify and streamline program requirements and give States greater flexibility in pursuing the most cost-effective ways of meeting wastewater treatment needs. After September 30, 1984, Federal grants generally will cover 55 percent of costs instead of 75 percent, and Federal money will not be used to provide reserve capacity to accommodate future population growth. Also, collector sewers and correction of combined sewer overflows will be eliminated as separate categories of eligibility after that date. States will identify "priority water quality areas" for use in setting priorities for projects. These are specific stream segments or bodies of water where municipal discharges have resulted in significant water quality impairment or public health risks, and where the reduction of pollution from such discharges will substantially restore surface or groundwater uses. In this way, States will concentrate on projects that contribute the most to the achievement of the Nation's clean water goals.

Increased treatment levels in municipal wastewater treatment plants have more than offset the increase in pollutant loads that has occurred because of increasing population, new sewers, and population shifts. In other words, the total amount of pollutants entering the Nation's waters from these plants has declined in the last decade, even though the population served increased by 18 million and municipal wastewater flow increased by almost seven billion gallons per day.

Progress is being made in controlling toxic pollutants as well. EPA studies and sampling efforts show that current levels of control are removing significant amounts of a number of toxic organic chemicals and heavy metals from industrial discharges. Furthermore, a survey of wastewaters entering and leaving municipal sewage treatment facilities reveals that well-operated plants provide an incidental removal of priority pollutants such as heavy metals and organics.

Under the Safe Drinking Water Act, EPA has the responsibility to establish standards to ensure the safety of drinking water while encouraging States to accept the primary responsibility for enforcing those standards. In the last year, a primary emphasis of the public water supply program has been to propose revisions to the existing drinking water regulations and to develop regulations for volatile organic chemicals. Because nearly half of the population depends on ground water for its drinking water, this is an issue that affects many urban communities.

State and Local Actions

Most States provide either grants or loans or both to help localities with wastewater facility funding.[9] Some State grants match Federal funds, while others aid nonfederally-assisted projects. State loans are most frequently secured by local taxes or sewer charges, but in some instances by future State aid, such as revenue sharing funds, or by local promissory notes. Loan interest rates are generally lower than those most local governments could obtain in the bond market. Some States, such as Minnesota, offer bond insurance to guarantee local debt service payment and, by lowering the risk, lower borrowing costs. Several States, including New Hampshire, Vermont, Maine, North Dakota, and Alaska, have created bond banks that sell revenue bonds and use the proceeds to buy local government bonds. Other States are considering a combination loan-grant program: the provision of low- or no-interest loans from a revolving fund to municipal borrowers, through which the State would, in effect, be making grant of interest costs.

Local governments are also adopting innovative methods to increase their financial capability to construct and operate wastewater plants. These include connection fees, sinking funds, and "mini-bonds." Mini-bonds are small-denomination, tax-exempt bonds that are sold to local citizens. They were first used by East New Brunswick, N.J.; now other jurisdictions are following that city's example. Local governments have also been improving their user charge systems to assure full coverage of plant operation, maintenance, and replacement costs. Some have begun to consider private sector ownership and operation of wastewater treatment facilities which have been made more attractive by the depreciation provisions of the 1981 Economic Recovery Act.

Notes

1. *The Report of the President's Commission on Housing.* Washington, 1982, p. xv.
2. Ira S. Lowry. "Rental Housing in the 1970s: Searching for the Crisis, " in John C. Weicher, Kevin E. Villani, and Elizabeth A. Roistacher (eds.), *Rental Housing: Is There a Crisis?* Washington, D.C.: The Urban Institute Press, 1981.
3. Joint Committee on Taxation, U.S. Congress. *General Exploration of the Economic Recovery Tax Act of 1981* (December 29, 1981), p. 113.
4. The scores in this index theoretically range from 0 to 100. Zero would represent a condition in which black or minority residents of a city or metropolitan area are evenly distributed throughout all of the census blocks or tracts; a value of 100 represents complete segregation. The index value, in other words, represents the minimum percentage of blacks that would have to move from one block or tract to another to achieve perfect integration, or an even distribution.
5. National League of Cities and the United States Conference of Mayors. *Capital Budgeting and Infrastructure in American Cities: An Initial Assessment,* April 1983, p. iv.
6. Advisory Commission on Intergovernmental Relations. *Public Financing of Physical Infrastructure,* 1983, p. 3.
7. Michael Barker. *Rebuilding America's Infrastructure: Financing Public Works in the 1980's.* Durham, N.C.: Duke University Press, 1983, p. 6.
8. The material for the urban environment section was provided by the U.S. Environmental Protection Agency, except as indicated.
9. The examples in this section are drawn from the Association of State and Interstate Water Pollution Control Administration, *Innovative Financing for the Clean Water Program: The State Perspective,* Washington, D.C., August 1983.

August 1984
HUD-909-PDR