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

The President's National Urban Policy Report

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

December 20, 1991

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

Dear Mr. President:

I have the honor of transmitting to you the biennial President's Report on National Urban Policy, pursuant to the requirements of the Housing and Urban Development Act of 1970, Public Law 91-609, as amended in 1977.

This Report on National Urban Policy is different from many of its predecessors. It charts a new course for our Nation's urban policy, based on growth and opportunity for those in need. It reflects the bold and comprehensive effort being made by your Administration to address the problems of long-term poverty by removing the barriers to productive social activity, and by providing opportunities for economic self-sufficiency and access to private property.

Your Administration's anti-poverty initiatives stress independence over dependency and self-sufficiency over subsistence, and are intended to strengthen the link between effort and reward. Through it, America will demonstrate that the ideal of democratic capitalism, which this Nation shares with countries all over the globe, can work for all the poor in our own country.

The Department of Housing and Urban Development is pleased to be a major participant in your Administration's efforts to unleash the talents of the public and private sectors and individuals to fight poverty. This Report describes in detail how the Department's six priorities contribute to the Administration's goals of expanding affordable housing and homeownership, ending homelessness, empowering the poor and providing equality of opportunity for all. It particularly stresses the Department's efforts to promote homeownership, because the opportunity to own a home is the most fundamental embodiment of the American ideal.

Your Administration achieved a number of victories in implementing its ambitious agenda in 1990, among them the enactment of the HOPE initiative to empower low-income families through homeownership and economic self-sufficiency and passage of your proposal for new and expanded refundable tax credits affording parents greater opportunity to choose their preferred child care arrangements. These efforts represent

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The Bush Administration is making the boldest, most comprehensive effort of the last quarter century to address the problem of long-term poverty, by expanding opportunity, jobs, and homeownership, and increasing the quality of education, for low-income Americans. The Department of Housing and Urban Development (HUD) is a major participant in this effort, and this ***National Urban Policy Report*** *describes the Department's six priorities as they relate to the Administration's strategy. But the Administration's new war on poverty represents a comprehensive effort to cut across executive department and agency lines of authority in order to attack the problem simultaneously in all of its dimensions. As part of that crosscutting effort, HUD is working with other agencies in a variety of ways to achieve its priorities.*

The New War on Poverty

The Administration's antipoverty agenda is multifaceted, but its basic premise is to eliminate governmental and nongovernmental barriers to opportunity in America—to expand choices for the poor so that they can make their own decisions and control their own lives. The Bush Administration has made a renewed commitment to build a ladder of opportunity to self-sufficiency—a responsible government commitment based on the lessons learned from our antipoverty experiences over 25 years, as well as a deeper appreciation of what lower income Americans actually need in order to escape poverty through their own talents and efforts.

It is this Administration's position that the fight against poverty must focus on incentives that can empower the poor with greater opportunity to share in the Nation's prosperity. A renewed war on poverty requires not only the removal of barriers to personal accomplishment, entrepreneurship, growth, and jobs, but also an activist policy to provide the tools for the poor to better utilize their capacity to participate in the economic mainstream.

The American people have long believed that each individual possesses untapped potential skills and talent. Properly designed incentives can provide greater opportunity and choice, encouraging people now below the poverty level to become productive and to enrich not just themselves but, in consequence, the whole society. The deprivation, discrimination, and impoverishment that typically constitute life in the inner city, however, prevent many from developing their hidden potential.

Empowerment is intended to harness the Nation's financial and other resources to develop the untapped capacities of the poor so that their productive potential will be fully utilized. For empowerment to be fully effective, the Government must target its programs to those who need to be empowered.

The Bush Administration's policies differ significantly from the original war on poverty. The record of the first war was, at best, mixed. Programs targeted to the elderly significantly reduced poverty among that large group of the population. Head Start and other early childhood programs have been generally regarded as successful. But there is also widespread agreement that the old approach to fighting poverty, though well-intentioned, did not succeed in attacking the roots of poverty. More than $2.5 trillion (in today's dollars) has been spent over the last 25 years on social welfare programs for the nonelderly, at all levels of government. Annual expenditures have more than tripled, in real terms.

Yet the results have been disappointing. The war on poverty among persons under 65—the poor of working age and their families—has been at best a draw during the 1980s, and then only as a result of the strong economic expansion that began in late 1982. (When properly adjusted for inflation, the poverty rate among this group declined from 14 percent in 1983 to 11.7 percent in 1989.)

Employment and labor force participation have declined sharply among black males since the beginning of the war on poverty. The proportion of young black males who were not working rose from 39 percent in 1966 to 60 percent in 1981. It has since declined to 53 percent as of 1989 as a result of the economic boom. During the same period, the proportion of young white males not working has fluctuated around 35 percent. This is an especially bitter outcome.

Clearly, one major defect of the first war on poverty was its failure to make proper and effective use of the incentives on which private enterprise relies to reward work and achievement. Instead, it created large, inflexible bureaucracies. Unfortunately, it has become all too commonplace on all sides of the political spectrum to claim that since bureaucracies could not "solve" poverty, nothing can be done to bring hope to the millions whose income leaves them below the poverty level.

The Bush Administration's answer to the problem of poverty is, in the words of the President, to "empower people—and not the bureaucracy." Empowerment is neither wasteful extravagance nor austerity, neither increasing government dependency nor laissez-faire abandonment of those in need. Instead, empowerment and opportunity require that government build incentives to work, to save, and to create enterprise into its strategy of waging war on poverty.

Speaking to the residents—who are also the managers—of the Cochran Gardens public housing project in St. Louis, President Bush hailed the "great things people accomplish when they get an opportunity to take control of their own communities." The Administration's new war on poverty is designed to create more of these opportunities.

The Broad Agenda of the Bush Administration

The President achieved a number of significant victories in implementing his agenda to expand choice and opportunity in 1990. In order to increase parental choice in child care, President Bush proposed and saw passage of legislation offering new and expanded refundable tax credits affording parents opportunities to choose their preferred child care arrangement, including care provided by families, friends, neighbors, or religious institutions. For the first time, a child health insurance credit provision is available to help families defray that cost.

But this Administration's horizons extend beyond the victories of the past 2 years. As President Bush said when he announced his Opportunity Action Plan: "Our Administration is proposing an agenda to expand opportunity and choice for all Americans. . . . In its entirety, I believe it represents one of the most far-reaching efforts in decades to unleash the talents of every citizen in America."

The President's FY 1992 budget recommended a broad range of further choice-expanding options. None is more basic or far-reaching than the capital gains tax cut. Encouraging low-income wage earners and persons on welfare to become entrepreneurs is central to this Administration's empowerment strategy, but it remains only a distant dream if they have little or no access to capital with which to begin a small business. Yet as long as capital gains tax rates remain at their present high level, billions of dollars potentially available for high-risk entrepreneurial investment will instead remain locked up in current asset portfolios.

Because a large proportion of the poor are concentrated in specific urban and rural areas, the Administration proposes to designate up to 50 enterprise zones to be provided with special tax incentives, including the elimination of taxes on capital gains earned within the zones. The Administration is confident that enterprise zone incentives will stimulate entrepreneurial activity and job creation in decaying areas and will, in time, reduce the demand for other forms of welfare and public assistance that are more costly and tend to create dependency.

Following Congressional passage and Presidential signing of the National Affordable Housing Act of 1990, the Administration proposes funding for HOPE, the title for Homeownership and Opportunity for People Everywhere. The HOPE program will increase housing choices and opportunities for low-income tenants of public housing to manage and eventually own their own homes. The FY 1992 budget submitted by the Administration includes funds to ease the way to homeownership in public housing, distressed FHA-insured multifamily housing, and single-family dwellings in the portfolios of several Federal agencies. Also included is funding for Shelter Plus Care, a program for homeless persons who are severely mentally ill or alcohol or drug abusers. To solve the special problems of this portion of the homeless, housing is combined with supportive services such as health care, mental health treatment, detoxification, case management, education, and job training.

One principal empowerment goal is to expand educational choice, especially among lower income families. Local and State jurisdictions across the country have implemented programs that empower parents to use education vouchers or other means to choose among schools that will best meet their children's needs.

The Administration's budget for FY 1992 contains such major educational choice initiatives as resources for local school districts to establish choice programs, demonstrations of new choice techniques, and support for a clearinghouse and technical assistance center.

Other measures to reduce economic barriers and empower Americans living under the poverty line are being offered as legislative initiatives in 1991, including proposals to improve job training; to encourage State and local innovations in the design of assistance programs to promote self-reliance and transition from dependency to self-support; to open up government construction to unemployed workers by relaxing Davis-Bacon provisions; to reduce de facto discrimination in the housing market by examining the effects of local rent control and zoning regulations, and challenging them where necessary; to reduce unfair taxation of senior citizens who want to stay in the workforce by a modest liberalization of the Social Security earnings test; and to relieve the high burden of taxation on low-income families through increases in child credits and wage credits for low-income workers in enterprise zones.

The Bush Administration's agenda is open, evolving, and flexible. The Administration is developing other ideas aimed at the high goal of providing opportunity and choice to low-income Americans in order to end the despair and hopelessness brought on by long-term poverty. This Administration will not be satisfied until that goal has been completely achieved.

HUD's Six Priorities

The six priorities forming HUD's antipoverty agenda combine empowerment and opportunity initiatives. Of course, the Department is not charged with the Federal Government's entire mission of fighting poverty, but it is certainly a major combatant. Secretary Kemp's priorities were designed to meet the challenge posed by problems of housing and cities related to poverty. No single priority standing in isolation can end the persistent poverty from which millions of urban Americans suffer. In fact, all six priorities together cannot complete the task: education, criminal justice, job training, and other activities of different Federal, State, and local agencies and private- and nonprofit-sector institutions, affect the lives of low-income families and must also play significant roles. HUD's agenda is just part of the Bush Administration's overall program.

Nevertheless, this Administration believes that homeownership and vibrant cities are at the heart of any effort to help urban Americans escape the poverty trap. This Administration also strongly believes that the effort to end poverty and to enable all people to share in the American Dream of homeownership and prosperity has become a moral imperative to which America must recommit itself. HUD's priorities give practical form to that moral imperative.

These priorities address problems that are widely believed to be more serious in the largest and oldest cities. It is certainly true that concentrations of persistent poverty are more often found in these cities. The problems occur, however, to some extent in cities of all sizes, in all parts of the United States, and the Department's agenda is correspondingly directed to all of urban America.

Expand Homeownership and Affordable Housing Opportunities

Homeownership, personal responsibility, and the escape from poverty have long been recognized as intertwined. The ownership of private property is a powerful incentive for the development of an individual's skills and talents. Sharing responsibility for managing the family home is an effective means of learning entrepreneurial skills.

The American Dream of homeownership has inspired generations of the poor, minorities, and immigrants to work or open businesses of their own with the expectation of providing a better home for their families. When Abraham Lincoln proposed what became the Homestead Act of 1862, he said that he was "in favor of cutting up the wild lands into parcels, so that every poor man may have a home," and added that "every man should have the means and opportunity of benefitting his condition." Owning a home and being a responsible democratic citizen are so inextricably related that in the early years of American history, only property owners had the franchise. To be sure, this legal limitation has long been abandoned as cities grew to include a steadily larger share of the population. But the concept underlying it is the recognition that homeownership is important for citizens of a democracy.

Today, when poverty has entrapped many thousands of inner-city minority Americans, the freedom, independence, and pride that come with homeownership also provide important incentives to work, entrepreneurial enterprise, and saving for the future. Homeownership opportunities are essential to bring poor and low-income Americans into the economic mainstream.

Over the past 20 to 25 years, factors such as inflation, high mortgage rates, and severe local restraints on housing construction have distorted the homebuilding and real estate markets, placing the American Dream beyond reach for many lower income families. Clearly, those who are losing hope of saving enough to make the largest investment most families ordinarily make—buying their first home—are losing a very powerful incentive to work and realize their potential. To promote homeownership, the Bush Administration has proposed to allow penalty-free use of Individual Retirement Accounts (IRAs) for downpayments for first-time home buyers. In addition, HUD is offering programs that will expand opportunity for more Americans to find affordable homes, and it is seeking ways to reduce barriers to the building and rehabilitation of affordable housing.

Create Jobs and Economic Development Through Enterprise Zones

The central cities of most metropolitan regions are home to a growing share of the Nation's poor and unemployed. A disproportionate share are members of minority groups, living in ghettoes and barrios. Over the last two decades, the poverty rate in central cities has trended upward, rising from 14.2 percent in 1970 to 17.2 percent in

1980 and 18.1 percent in 1989, while the national poverty rate was between 12.6 and 13.0 percent in each of these years. The central city poverty rate did come down from a high of 19.8 percent at the end of 1983, but the relative improvement was less than that experienced in suburbs and nonmetropolitan areas. Thus, it is clear that America's emergence from the stagnant, inflation-ridden economy of the 1970s into the dynamic growth economy of the 1980s has benefited the cities as well as other parts of the country, but has still left pockets of urban depression that have seemed to be impervious to the general trend of prosperity.

Many of the depressed neighborhoods are also centers of drug trafficking and abuse. The drug problem must be addressed directly, and it is also one of HUD's priorities. In the context of economic development, however, an important lesson can be learned from the growth of drug trafficking in the inner cities. When legal and legitimate avenues for the poor to reach economic opportunity are blocked, any available methods, including illegal or illegitimate ones, will be preferred to the hopelessness of doing nothing to earn income. Indeed, it has become obvious that an enormous misguided and mischanneled pool of entrepreneurial skill, as well as the drive to succeed, exists in the poorest areas *right now*.

The Administration rejects the notion that the only route to advancement in the most hopeless urban communities is through the dangerous underground trade in illegal drugs. The challenge is to institute imaginative policies to divert and rechannel that potential into productive and legitimate enterprises.

The concept of enterprise zones is such a policy, and the Administration's proposed enterprise zone legislation will offer dramatic tax and regulatory incentives for enterprise and job creation in depressed urban and rural areas. Enterprise zones, as President Bush has said, can "plant the seeds for a real urban revival." They can replace the despair of inner-city residents with hope as they open new opportunities to share in the mainstream of national prosperity.

Empower the Poor Through Resident Management and Homesteading

The central idea of the new war on poverty is that low-income Americans must be empowered to respond to incentives for escaping their poverty through market-based opportunities. Some lower income families have already started to take control of their living environment. In a number of public housing communities, residents have reacted to the daily frustration they experience because of their incapacity to control crime, drug abuse, and violence in their buildings and neighborhoods. They have fought for the right to manage their communities themselves.

One of HUD's most exciting priorities is to offer many more public housing residents the chance to take over the management of their communities, and eventually to buy their housing units at discounted prices and low mortgage rates. In places where resident management has already been tested, the results have included: substantial improvements in the neighborhood social environment; declining crime, violence, and teenage pregnancies; rising education levels among young residents; and higher hopes and expectations. These results bode well for the planned expansion of inner-city homesteading.

Enforce Fair Housing for All

An individual's civil right to buy, own, rent, or sell a home must not be denied or infringed on the basis of race or gender, ethnic or religious background, family status, or handicap. The Bush Administration will not tolerate any form of bias in housing, and HUD and the Department of Justice will prosecute discrimination to the full extent of the law.

Housing bias can be a major barrier between individual effort and the opportunity to climb out of poverty. Housing discrimination denies the very premise on which this free society rests: that every person, regardless of class or group background, should have the same right to the rewards of his or her work and enterprise. Without strict enforcement of fair housing laws, those who find they are victims of discrimination cannot be empowered to share fully in the opportunities that should be open to all as the economy continues to expand.

To further the Federal Government's authority to prevent discrimination, Congress passed the Fair Housing Amendments Act in 1988, which greatly strengthened the Secretary's powers to punish discrimination, and also recognized as illegal a broader range of discrimination. HUD is taking a number of important steps to enforce this new legislation vigorously. For example, since the 1988 amendments, which allowed the Secretary of HUD to authorize the Department of Justice to seek Federal District Court orders restraining perpetrators of housing discrimination, Secretary Kemp has swiftly intervened in 10 new cases to protect victims who would have lost rights or been harmed by discriminatory acts.

Help Make Public Housing Drug Free

Public housing communities are by no means the only neighborhoods with serious drug problems, but they are the one area where HUD can become directly involved and has the power to make a difference. The Secretary of HUD has substantial legal authority to help eliminate the scourge of drug sales and drug abuse on or near the premises of public housing communities. In many urban public housing neighborhoods, young and old are hostages in their own homes, frightened to walk outside or inside buildings because of threats from thugs who openly sell and use drugs. Crime and murder rates are rising in public housing as well as elsewhere in many large metropolitan areas. In some localities, elderly tenants are forced to pay "protection" money to drug-pushing gangs every time they want to use an elevator. Police patrols cannot keep up, and the breakdown of law enforcement is creating a Hobbesian state of nature where residents live in constant fear for their own and their families' lives. In reaction, private vigilante groups are being invited to patrol the neighborhood by residents who believe they have no other choice to defend themselves.

People cannot seek opportunities to escape poverty when they are surrounded by a hostile, life-threatening environment or when they use drugs that debilitate their physical and mental capacities. Not only is their physical movement restricted, but such an atmosphere also creates a mentality of mistrust and despair. HUD cannot solve the Nation's drug-abuse problem, but one of Secretary Kemp's most urgent priorities is to use his powers of eviction to force drug users and traffickers out of public housing. HUD has a commitment to restore crime-free, violence-free, and drug-free public housing where mistrust is replaced with hope, confidence, and the positive outlook basic to the effort of escaping from poverty conditions.

Help End the Tragedy of Homelessness

While low-income residents of public housing face barriers to opportunity, the homeless are in even more precarious circumstances. The tragedy of families, including tiny children, living in shelters, parks, campsites, subways, or on the streets, weakens the faith of Americans in democracy's ability to establish conditions for dignified life.

For some of the homeless, affordable housing has been placed beyond reach: inexpensive housing has been lost as a result of gentrification and economic redevelopment, while local and State regulatory barriers prevent the construction of new low-income housing. Temporary shelter is needed, until these individuals can find jobs and achieve the economic stability to search the existing housing stock for a suitable dwelling.

However, a large number of the homeless, probably a majority, suffer from mental illness, drug abuse, alcoholism, or other disorders and illnesses. In these cases, temporary shelter is insufficient; they require care as well. The focus of this priority is to offer programs of service-supported housing as well as professional treatment for homeless people with deep-seated problems. If the Nation is determined to eliminate long-term poverty from society, comprehensive treatment must be a priority.

The HOPE Initiative: Homeownership and Opportunity for People Everywhere

The Administration has incorporated four of HUD's priorities in a comprehensive and innovative program called HOPE—Homeownership and Opportunity for People Everywhere. The HOPE agenda proposed to fund eight initiatives amounting to $3.9 billion in total resources over FY 1991 and FY 1992, including more than $2.7 billion in budget authority, $381 million in tax incentives, and $817 million in State, local, and nonprofit matching funds. While Congress has yet to authorize the President's enterprise zone proposal, the seven other initiatives were authorized in the National Affordable Housing Act of 1990. The House and Senate rejected the President's request to fund these programs in FY 1991; however, Congress appropriated $1.1 billion for these seven programs in FY 1992. Combined with matching resources of $213 million, HOPE will provide $1.3 billion in total resources for FY 1992. These initiatives will dramatically expand homeownership and affordable housing opportunities, help end the tragedy of homelessness by combining shelter with care, and create jobs and economic opportunities to help low-income families achieve self-sufficiency.

This Administration believes that HOPE offers not a mere bandage for poverty but a beginning effort at a cure. By strengthening the link between effort and reward, by increasing equity stakes in homes and neighborhoods, and by expanding job creation and enterprise, the new HOPE package will help open a path of opportunity out of poverty and begin to recapture the American Dream for millions who have been left behind.

The chapters that follow describe HUD's six priorities in detail. These priorities constitute the vanguard of this Administration's new war on poverty—a war it intends to win. Americans, in common with people all over the world, have pinned their hopes for their own and their families' futures on the emergence of both free economies and free political institutions. The ideals of democratic capitalism are gaining almost everywhere, but that success only increases this Nation's burden. The United States must demonstrate that democratic, humane capitalism can work for all the poor in America, where it was first established, because America's founders had an abiding faith in the good sense and generosity of the people.

This *National Urban Policy Report* thus differs from its predecessors. Its aim is to chart a new course for the Nation's urban policy, based on opportunity and empowerment of those in need. The report omits detailed presentations of statistics on urban poverty and other aspects of urban conditions. Data from the 1990 Census, providing a fresh look at the status of urban America, will be reviewed in the next *National Urban Policy Report*. Current, albeit less detailed, information is included in this report at various points. However, the focus is on the policies to combat poverty.

Expand Homeownership and Affordable Housing Opportunities

Homeownership Goal

Homeownership opportunities and affordable housing for all Americans have been the goals of housing policy in the United States for more than half a century, and the focus of HUD's housing programs during the Department's first 25 years. Under Secretary Kemp, these traditional objectives have become an essential part of the Administration's new effort to empower the poor.

Homeownership has long been recognized as a desirable social policy, as a means of promoting stability, social responsibility, and civic involvement. In the past, most Federal policies to provide homeownership opportunities have been targeted toward middle-income families, particularly young families seeking to buy their first home. The Administration is offering a number of proposals, discussed in this chapter, to help this group achieve the American Dream of homeownership. The HOPE initiative, discussed in Chapter 3, is designed to offer lower income families as well the chance to become homeowners, to enjoy the benefits of living in their own home as a first significant step toward full participation in American society and the U.S. economy.[1] At the same time, HUD continues to provide, through the tenant-based certificate and voucher programs, rental-housing assistance for lower income families, so that they can afford to live in decent housing and safe neighborhoods of their own choosing.

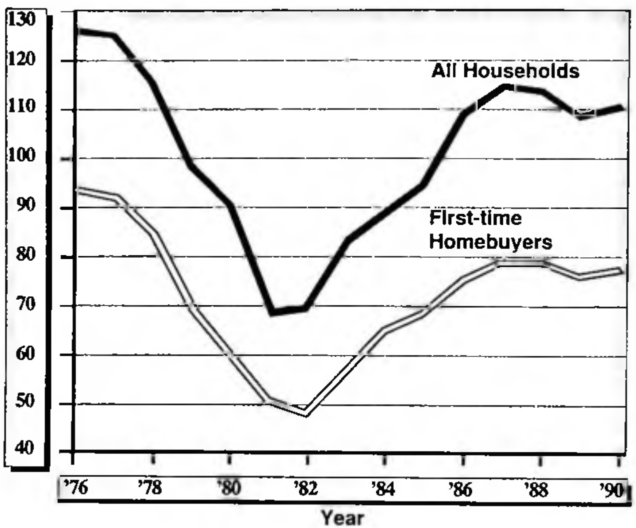
Homeownership Opportunities

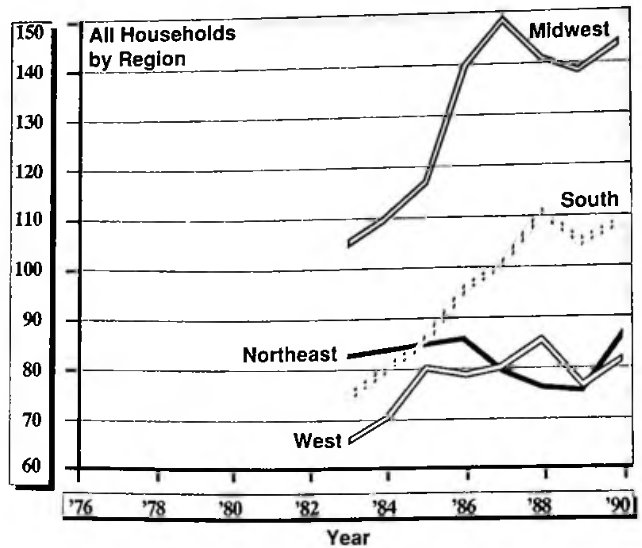
The Nature of the Problem

Widespread public concern about homeownership opportunities during the 1980s has obscured the fact that affordability has substantially improved during the economic expansion that began in 1982. The Affordability Index of the National Association of Realtors, the most widely quoted such measure, shows steady progress (see Figure 1). Family incomes have risen faster than house prices, while interest rates have declined sharply from the unprecedented levels of a decade ago. The Index has fluctuated somewhat in recent years along with interest rates, but the overall upward trend is clear and a separate index for first-time buyers, produced since 1984, parallels the average. The Index has been consistently above 100 since 1986. An index of 100 indicates that the typical American family can afford the typical American house. At the same time, however, the *rate* of home-

Figure 1

National Association of Realtors (NAR) Affordability Index[1]





[1] The NAR interprets an index value of 110 in 1990 as showing a family earning the median family income of $35,581 had 110 percent of the income required to qualify marginally for a conventional loan covering 80 percent of the median existing single-family price of $95,500. First-time buyers are defined as wage-earning renters, aged 25 to 44. The index for them is the ratio of the median income for the group to the minimum income required to qualify for a 90 percent mortgage on a starter house (priced at 85 percent of median of all existing houses for sale). *Home Sales*, National Association of Realtors, Feb. 1991.
Source: National Association of Realtors, *Home Sales*.

ownership declined slightly during the 1980s, from 65.6 percent in 1980 to 63.9 percent in 1990. Most of this decline occurred during the recessions at the beginning of the decade; the homeownership rate has stabilized at about 64 percent since 1987. The absolute number of homeowners has increased since 1980.

These opposing trends in homeownership can best be explained as an "inflation hangover." The ability to buy a home does not always translate into a decision to buy. Historically, the decision to buy a home has been linked to the economic and demographic status of the household. For example, married couples became homeowners between the time they married and the time they began to have children, while single individuals typically were renters. During the years of double-digit inflation in the late 1970s and early 1980s, this pattern changed dramatically. Owning one's own home became the best—for most Americans, the only—hedge against inflation; it was the only asset they could own that held and even gained in real value. Financial assets—checking and savings accounts, stocks, and bonds—lost value in real and in some cases even nominal terms. The tax laws further spurred homeownership; the tax benefits of owning a home became increasingly valuable as inflation pushed middle-income families into tax brackets once intended for the rich.

Owning a home was thus an act of economic self-preservation in the 1970s. During the past decade, as Federal policies reduced the rate of inflation to much lower levels and the top marginal tax rate was reduced by more than half, the decision to buy a home could once again be based on personal circumstances. The modest trend away from homeownership since then is thus essentially a reaction to the extraordinary economic upheaval of the late 1970s and the more stable economy over the past decade.

Perhaps more important than the overall national trends, there are sharp and increasing regional disparities. Housing costs and affordability problems vary by region and market. During the 1970s, affordability became a particular problem in parts of the Western United States as house prices rose quickly there. During the 1980s, prices stabilized in the West but became a special problem in the Northeast. Within these regions, more acute problems have arisen and persisted in particular localities, mainly in the largest cities of the East and West Coasts.

The Federal Role

The decline in the homeownership rate is a matter of public concern, and the Administration shares that concern. The Federal role in promoting homeownership is: (1) to stabilize overall monetary and fiscal policies that will assure mortgage interest rates at levels that permit families to buy homes; and (2) to remove specific impediments that force some potential buyers out of the housing market. For more than 50 years, for example, Federal Housing Administration (FHA) mortgage insurance has played an important role in reducing interest rates and assisting first-time homebuyers.

During the 1988 Presidential campaign, Vice President Bush advocated a significant change in tax policy to help young families buy their first home; as President, he has honored that commitment by proposing to allow first-time homebuyers to make withdrawals from IRAs without penalty, to help finance the purchase of homes. Potential homebuyers often have difficulty accumulating the savings necessary for a downpayment. A number of studies show that the downpayment is a greater barrier to homeownership than the monthly mortgage payment. The IRA has provided tax incentives for retirement savings, but has not offered similar incentives for home purchase, which is likely to be the biggest investment made by most families and to constitute the largest share of their asset portfolio at retirement.

The Administration's proposal is targeted to moderate- and middle-income, first-time homebuyers. Downpayment assistance will be limited to $10,000, and the maximum price of the house will be 110 percent of the average purchase price in the local market area. Nationally, this program will permit families to accumulate a downpayment of 10 percent to buy houses priced at about $100,000, the median price for existing homes in 1990. This proposal will help thousands of young families reach the first rung on the homeownership ladder, at a modest reduction in tax revenues ($220 million over 3 years).

State and Local Barriers to Affordable Housing

The problem

Regional disparities in affordability have increased and become sharper recently, offering clear evidence that much of the current affordability problem is the result of actions on the State and local levels. This outcome is not surprising. Under the Federal system, regulations concerning the construction and rehabilitation of housing are controlled by State and local governments. All stages of design and construction must proceed through carefully prescribed reviews, clearances, and approvals, often at several levels of government. Regulations govern where housing can be built, what types and densities will be permitted, what materials and designs can be used, and what infrastructure must be provided. This regulatory system is largely local. The police power to regulate construction has long been delegated by State governments to municipalities and counties. It is an area in which the Federal Government has never had a significant presence nor sought jurisdiction.

The local nature of building regulation causes problems that are unique to the housing construction industry. Families most in need of affordable housing often do not reside in the communities where it might be provided, and have little influence on the ordinances controlling the supply of housing. Local regulations are determined by, and attempt to serve the interests of, residents and taxpayers who already live in the community and whose priorities often include open space, "managed" growth, enhancement of property values, or maintenance of a particular lifestyle. Frequently, new development is encouraged only if it will generate tax revenue, enhance local property values, and result in minimal additional demand for public services. Affordable housing often falls into the NIMBY (not in my backyard) category.

Barriers to affordable housing can take many forms at many points in the housing production process. Many barriers are of long standing, but in recent years new types—such as growth controls and impact fees—have been created that are more pernicious than the traditional ones and appear to serve less of a public purpose. The new barriers have raised costs substantially in many jurisdictions and resulted in considerable disparities in the cost of similar houses in different areas of the country.

Barriers are particularly acute in growing metropolitan areas, and especially on the East and West Coasts; they are a major cause of the affordability problem in these areas.

Processing delays

Approvals and permits have always been part of the building regulatory process, but in recent years the process has taken longer and longer. Rezonings, negotiations, site plans, drainage plans, and environmental impact statements must all be reviewed by a complex and overlapping series of boards and agencies representing several layers of government with differing concerns. Plans approved at one level are too frequently rejected at another, requiring changes that necessitate going through the entire review process all over again. These delays can impose heavy costs that ultimately push the price of the housing beyond the reach of moderate- and middle-income families.

Each of these reviews may have a valid public purpose, but in aggregate they can inhibit if not prohibit housing construction. One possible means of shortening the approval process, advocated by a number of builders, is for State and local governments to reexamine the need for multiple approvals, or to develop systems for concurrent fast-track reviews.

Environmental regulations

As the environment has become a matter of growing public concern, protective legislation and regulations have in turn become increasingly important in the building regulatory process. Environmental protection is one of the few areas in which there is a strong State and Federal presence. Preservation of wetlands, endangered species, and water and air quality all may require limits on development. These objectives are certainly legitimate goals of public policy. Unfortunately, they are sometimes used as an excuse to protect the lifestyle of existing residents in a community or to exclude affordable housing.

Subdivision requirements and impact fees

Many communities have imposed increasingly onerous requirements for builders to construct or pay for public facilities. Schools, roads, and amenities that have traditionally been provided by local government, such as parks, playgrounds, or community centers, are among the improvements sought. In addition, communities have established excessive "gold-plated" standards for infrastructure. These requirements add to total development costs, decrease the density of development, and reduce affordability. Such exactions give a free ride to existing residents, as the cost of amenities benefiting the entire community is transferred to the new generation of homebuyers in the form of higher house prices.

Zoning

Traditional regulatory mechanisms are also being used to raise the cost of housing. Zoning and related land-use controls are the most powerful instruments that localities wield to regulate the environment. In many communities, the cost of land for new housing now exceeds 50 percent of total development costs. Desirable land on the fringes of growing metropolitan areas is often zoned for agricultural use or the lowest residential density, failing to provide for smaller lot sizes, townhouses, and multifamily housing. Such actions force workers with moderate-income jobs in the city to commute unnecessarily long distances to find affordable suburban housing.

Building codes

Building codes have been used in the past to delay the introduction of new, cost-saving technology, but this problem is not as severe as it used to be. During the past 20 years, great strides have been made by State and local governments to reform building codes. Cooperation among local governments, code officials, home-builders, and building trades unions has resulted in the development of model codes to which most communities now subscribe. In addition, many States have enacted statewide codes to address the needs of factory-built housing.

Some significant regulatory barriers remain. Many communities do not systematically update their codes when the model codes are revised, while in other communities the model codes are amended or modified to reflect local interests. In addition, problems continue to arise when building codes aimed at new construction are applied to housing rehabilitation. In some communities, local code provisions leave no choice but total reconstruction, when less costly forms of rehabilitation would suffice.

Removing Regulatory Barriers

Problems generated by unnecessary and exclusionary building regulations have long been recognized, but have not been addressed successfully by the Federal Government. In the first serious Federal effort of its kind in many years, Secretary Kemp has committed the Department to finding ways to reduce and remove regulatory barriers. One legislative initiative has already been proposed, and further activities are underway.

Housing Opportunity Zones

The reduction of regulatory barriers to affordable housing is ultimately a local responsibility, but the Federal Government has both the duty and the opportunity to encourage local governments to remove legal and administrative impediments. As part of the HOPE initiative, President Bush has proposed the creation of Housing Opportunity Zones. These zones would be located in areas within a city or county that have significant amounts of vacant land or vacant buildings and that have the potential for housing production or rehabilitation. Federal incentives would be offered to those communities that most successfully remove regulatory barriers to affordable housing. The proposed Federal incentives include modifications in some FHA insurance processing procedures for new construction and rehabilitation and automatic full crediting of Community Development Block Grant (CDBG) expenditures toward the locality's low- and moderate-income targeting requirement, in Housing Opportunity Zones located in severely distressed cities.

Fifty Housing Opportunity Zones would be selected by a competitive process. Selection criteria would be based on local government plans to produce affordable housing by removing barriers such as restrictive zoning, obsolete building codes, complex permitting processes, and high permit fees. Local governments have often responded to local interests that oppose affordable housing in their own area; the Housing Opportunity Zone initiative is designed to ease these local concerns by demonstrating the extent to which relaxing unnecessary regulations can reduce costs and help make housing affordable. Furthermore, the zones would be located in areas where no housing activity is now taking place, and where therefore fewer local interests would be threatened.

Advisory Commission on Regulatory Barriers to Affordable Housing

In November 1989, President Bush asked Secretary Kemp to establish a blue-ribbon commission that would identify regulatory barriers to affordable housing and recommend ways to remove these barriers. Secretary Kemp created the Advisory Commission on Regulatory Barriers to Affordable Housing in March 1990, with former Governor Thomas H. Kean of New Jersey as Chairman and former U.S. Representative Thomas L. Ashley of Ohio as Vice Chairman. Its 21 members include local elected and appointed officials, builders and developers, expert housing analysts, and individuals representing the interests of low- and moderate-income homebuyers and renters. The Commission has examined the nature and impacts of Federal, State, and local legislation and regulations that govern the construction, rehabilitation, and management of single-family and multifamily housing. The review includes zoning, impact fees, subdivision ordinances, codes and standards, rent control, permitting and processing, and Federal and local environmental regulations. The Commission held hearings in Trenton, New Jersey; Chicago, Illinois; San Francisco, California; and Washington, D.C. The Commission submitted its report, *"Not In My Back Yard": Removing Barriers to Affordable Housing,* to President Bush and Secretary Kemp in July 1991. It concluded that regulatory barriers raise housing costs by 20 to 35 percent in many communities. It recommended a Housing Impact Analysis for Federal regulations, requiring an acceptable barrier removal plan as a precondition for some housing assistance programs, including Mortgage Revenue Bonds (MRBs) and the Low-Income Housing Tax Credit (LIHTC), and a better balance between environmental regulations and the need to develop affordable housing.

Affordable Housing for Lower Income Renters

Affordability is an urgent issue among the lowest income households in America, who are predominantly renters. During the 1980s, the number of low-income renters who most need help was slightly reduced, but many families are still unable to afford both decent housing and the other goods and services that they need.

Under the Bush Administration, HUD is committed to expanding affordable rental housing opportunities for the needy. In this effort, however, it is important to formulate the affordability problem correctly; otherwise, counterproductive proposals may be adopted that could result in even more severe problems. A frequent—and expensive—misconception is that massive Federal expenditures for new construction or rehabilitation are needed to increase the supply of affordable housing for low-income households. In fact, the supply of decent housing is already ample in most localities; there is no physical shortage of suitable adequate units. Instead, the deficiency is financial, because low-income households are unable to afford the rent payment.

In 1979 and 1983, Congress established priorities for allocating housing assistance to needy families. Those to be given the highest priority are: very low-income families (those with incomes below 50 percent of the local median income) who pay more than half of their income for rent and utilities; those who live in severely inadequate housing; and those who are displaced or homeless. In 1989, the latest year for which data are available in the American Housing Survey, there were just over 10 million very low-income family and elderly rental households. Some 3.6 million of them suffered from these "worst case" housing problems.[2] Table 1 shows the housing situations of these families. Among the 3.6 million families with priority problems, the vast majority—2.6 million, or almost three-quarters—live in housing that is adequate and uncrowded, but they pay an excessive rent burden to do so. Another 320,000 pay excessive rent to live in housing that is uncrowded but in need of rehabilitation. Based on 1989 data, about 450,000 families live in severely

Table 1

Housing Conditions of Very Low-Income Family Renters, 1989

	Number (1,000s)	Percent of Total	Appropriate Policy
Priority Problems[1]	3,640	35	
Rent burden above 50% only (housing adequate and uncrowded)	2,590	25	Tenant-based assistance could be used in place
Severely inadequate	450	4	Rehab impossible, other housing needed
Burden above 50% and moderately inadequate, but uncrowded	320	3	Moderate rehab and rental assistance in place
Burden above 50% and crowded	270	3	Rental assistance in other housing needed
Other Problems	2,410	24	
No Problems	1,170	11	
Assisted	3,030	30	
Total	**10,250**[2]		

[1] Defined as housing cost burdens greater than 50% of income or severely inadequate housing among unassisted households.
[2] Numbers may not sum to total due to rounding.
Source: *American Housing Survey*, 1989.

inadequate housing that probably should be razed rather than rehabilitated. The remaining 270,000 families live in overcrowded dwellings and would need to move to find units large enough for their families.

The 1989 pattern continues trends that have prevailed over many years. As Table 2 (Parts 1 and 2) shows, the proportion and number of unassisted very low-income families living in severely inadequate housing have steadily decreased. The count of 450,000 in 1989 is well below the 1975 count of 860,000. Similarly, the number living in crowded conditions (defined as having more than one person per room) has been declining as well.

But over the 1975–89 period, the number and proportion of unassisted renters suffering from a high rent burden increased up to 1985; it has since declined modestly. Overall, the number of very low-income renters with priority housing problems increased, from 2.8 million in 1974 to 4 million in 1985[3] before moderating to 3.6 million in 1989. The number of very low-income renters with no priority housing problems has been fairly stable.

Table 2, Part 2, also shows that the number of very low-income family renters receiving housing assistance rose steadily during the later 1970s and 1980s, increasing from 1.5 million in 1975 to 3.0 million in 1989. At the same time, the total number receiving assistance rose from 1.7 to 4.2 million units.[4] (By 1990, 4.4 million units were eligible for payment under HUD housing subsidies.) This substantial increase in housing assistance has been enough to reduce the number of unassisted very low-income renters, as well as the number with priority housing problems, but it is clear that many very low-income families will continue to confront high rent burdens in the future.

Federal Policies for Low-Income Renters

The nature of the housing problems confronting very low-income renters directly suggests the most suitable policies. For the vast majority of those who live in housing that is adequate and uncrowded, but who face steep rent burdens, tenant-based assistance in the form of certificates and vouchers is appropriate. These families have found decent housing in the private housing stock; they only need financial help in their struggle to continue living in the housing and neighborhoods that they have chosen. In addition, tenant-based assistance can also help keep the housing for these families in decent condition by providing landlords with financial incentives for maintenance. At the same time, however, tenant-based assistance empowers poor renters to move to other housing and other neighborhoods if they choose to do so; they are not forced to stay where they no longer wish to live.

Table 2 (Part 1)

Housing of Very Low-Income Families, Selected Years

Percent of Households

	1975	1979	1983	1989
Family and elderly renters (1,000s)	7,750	8,780	9,720	10,240
Unassisted	81%	77%	75%	70%
Unassisted with:				
Severe physical problems[1]	11	7	4	4
Moderate physical problems[1]	10	9	8	9
Crowding	10	8	9	8
Rent burden 30-49% of income	25	23	21	21
Rent burden 50+ of income	27	28	34	33
With priority problems[2]	36	33	39	35
Assisted	19	23	25	30

[1] Definition of "physical problems" differs slightly from that in Table 4 to be more comparable over time.
[2] Unassisted with rent burden above 50% or severe physical problems.
Source: Tabulations of the *Annual* and *American Housing Surveys.*

Table 2 (Part 2)

Housing of Very Low-Income Families, Selected Years

Numbers of Households (1,000s)

	1975	1979	1983	1989
Family and elderly renters	7,750	8,780	9,720	10,240
Unassisted	6,290	6,750	7,320	7,210
Unassisted with:				
Severe physical problems[3]	860	600	660	450
Moderate physical problems[3]	750	810	800	820
Crowding	760	730	880	820
Rent burden 30-49% of income	1,930	2,020	2,050	2,200
Rent burden 50+ of income	2,070	2,430	3,290	3,320
With priority problems[4]	2,790	2,900	3,790	3,630
Assisted	1,460	2,030	2,400	3,030

[3] Definition of "physical problems" differs slightly from that in Table 4 to be more comparable over time.
[4] Unassisted with rent burden above 50% or severe physical problems.
Source: Tabulations of the *Annual* and *American Housing Surveys*.

Vouchers and certificates, moreover, in most cases can accommodate the 450,000 eligible families living in severely inadequate housing units within the existing rental stock. Throughout the 1980s, the rental vacancy rate was unusually high, reaching a 25-year peak at 8 percent in 1988, and remaining above 7 percent in 1990. More relevant for housing policy is the fact that the vacancy rate for rental housing that can be brought within the reach of very low-income renters is also high—7 percent in 1989. In that year, some 1.6 million vacant rental units were being offered at or below the Fair Market Rents, which are the maximum amounts that HUD will pay to assist very low-income renters. Similarly, because assistance payment schedules for vouchers and certificates vary by the size of the household, the 270,000 families paying excessive rents for decent housing that is small relative to their needs could be helped to afford larger houses or apartments.

Tenant-based certificates and vouchers address the financial housing needs of the poor directly. When coordinated with other welfare programs, they can encourage the poor to work their way out of poverty. This is the purpose of Family Self-Sufficiency, which is part of the HOPE initiative. Family Self-Sufficiency will allocate vouchers and certificates to Public Housing Authorities (PHAs) that offer access to a comprehensive program of services to the recipients. Housing assistance will be tied to job training, employment counseling, education, child care, transportation, and other assistance that will provide low-income families with opportunities for upward mobility and self-sufficiency. For families that are capable of working, Family Self-Sufficiency is a transitional tool to help them become part of the economic mainstream of American life.

Strategies based on new construction to address the housing problems of low-income renters are inappropriate as a national policy, given the nature of the problems. Compared to tenant-based assistance, new public or privately owned, federally subsidized housing is more expensive and takes much longer to help those who need it. More importantly, subsidies tied to the project rather than given to the tenant deprive the poor of the right to choose their own neighborhood. When their name comes to the top of the waiting list, families who have been waiting for housing assistance find themselves offered only a single option. In addition, the project-based subsidy eliminates the market incentive for the owner to maintain the housing unit in decent, livable condition. If the building is not maintained properly, tenants have no recourse except to complain to the local government or to HUD. Too often, the monitoring and enforcement process has broken down, resulting in Federal taxpayers paying for the poor to live in horrible conditions, in projects such as Tyler Homes in Washington, D.C., and Morningstar and Vernon Manor in Tulsa, Oklahoma.

In some local markets having very low affordable housing vacancy rates, new construction or substantial rehabilitation may be necessary to provide low-income housing. For these situations, the Low-

Income Housing Tax Credit (LIHTC) can be a useful tool. The LIHTC was created in the Tax Reform Act of 1986 to replace the accelerated depreciation and other tax benefits to rental housing that were terminated as part of tax reform. The LIHTC provides a credit for up to 70 percent of the cost of building or rehabilitating the housing, in present value terms. The credit is allocated to the States, which select the projects that will receive it. If they wish, State officials with detailed knowledge of local housing market conditions can target the credit to the areas with the most need for additional low-income housing.

The LIHTC was originally enacted for a 3-year period and scheduled to expire at the end of 1989. At first it was not widely used; only about 20 percent of the available credits were utilized in 1987, and about 60 percent in 1988. But in 1989, as builders and investors learned how to make the LIHTC work, nearly all of the credits were used. The credit was extended through 1990, at a reduced program level. A further 1-year extension was enacted in the Omnibus Budget Reconciliation Act of 1990, and the Administration proposes a further extension in its FY 1992 budget requests.

The HOME Investment Partnerships program, enacted in the National Affordable Housing Act of 1990, will provide States, cities, and urban counties with the opportunity to choose among tenant-based assistance, rehabilitation, and, in some cases, new construction, for the use of funds allocated to them by formula. Through a new planning requirement, the Comprehensive Housing Affordability Strategy (CHAS), participating jurisdictions will match their use of HOME funds to their housing needs and market conditions. HOME funds must be matched by State, local, or private subsidies, and the matching rate is higher for new construction and substantial rehabilitation than for light rehabilitation and tenant-based assistance, to encourage State and local officials to consider carefully whether they really need the most expensive and least empowering types of low-income housing.

Maintaining the Existing Stock of Subsidized Housing

At the same time that the Administration is seeking to empower poor renters through tenant-based assistance and Family Self-Sufficiency, it is committed to preserving the existing stock of assisted housing, both public and privately owned, wherever preservation and maintenance are cost-effective. This commitment has already been manifested in new housing laws. With respect to public housing, the Administration has proposed a substantial increase in funds for modernization. The FY 1990 budget proposed to spend $1 billion for modernization; the FY 1992 budget more than doubled this request, to $2.3 billion. The Congress has agreed with the Administration's effort to rehabilitate existing public housing. In FY 1992, Congress enacted $2.8 billion for this program activity.

The Administration also proposed, and Congress accepted in the National Affordable Housing Act of 1990, a new system for allocating modernization funds; money will be given to PHAs on the basis of a formula reflecting the modernization needs of the projects owned by each authority. The PHA will decide how to divide the funds among its projects. This approach will enable the PHA to conduct comprehensive modernization of a given project on the basis of a stable funding plan. This system should result in the most effective use of modernization funds to meet the needs of public housing residents.

Over the next 15 years, the private owners of 360,000 units of HUD-assisted multifamily properties will become eligible to prepay their mortgage loans and convert their properties to market-rate rental housing or other purposes. This eligibility stems from terms of the regulatory agreement signed at the time the properties were built; owners were allowed to prepay their mortgages after 20 years. The majority of these properties were built in the early 1970s, so most of the 20-year terms will be expiring in the near future.

This "prepayment inventory" has posed a vexing problem for housing policymakers. In 1987, temporary legislation basically imposed a moratorium against prepayment, severely limited the rights of property owners, and left tenants uncertain as to their position after its expiration date. As part of the HOPE initiative, the President offered the first comprehensive strategy to deal with the potential loss of units from the stock of HUD-assisted properties eligible for prepayment. The basic principles of this strategy are to ensure that low-income households continue to have access to most of this affordable housing, *and* to provide opportunities for tenants to become homeowners, while at the same time fairly compensating owners seeking to prepay their mortgage loans.

Working together, HUD and Congress have incorporated these basic HOPE principles into prepayment provisions of the new housing law. In exchange for retaining affordability restrictions for the remaining useful life of the housing, owners will be offered the option of receiving financial incentives. The incentives cannot exceed an amount equivalent to rents at 120 percent of the HUD-established Fair Market Rent for the local market area, with exceptions for properties located in unusually high-rent neighborhoods.

If owners decide not to accept the financial incentives, they will be required to provide a "right of first offer" to tenants to allow them to purchase the property, for purposes of resident homeownership, and to other entities who are willing to retain affordability restrictions for the remaining useful life of the housing. Owners will receive a purchase price based on the value of their properties at their highest and best use and must sell their properties if a bona fide offer is made.

To assist tenants to purchase properties, HUD will provide a grant to Resident Councils to cover the costs of acquisition and for rehabilitation, technical assistance, and other expenses. For-profit entities will be eligible for mortgage insurance for an acquisition loan and other incentives to ensure that the property remains affordable to low-income households. Nonprofits and State and local public agencies acquiring properties for continued use as affordable rental housing will also be eligible to receive grants to cover the purchase price as well as other incentives. For these entities, when the value of a property is greater than Federal Cost Limits (generally a value equivalent to a rent 120 percent of the local Fair Market Rent), HUD can provide additional assistance in the form of a capital grant to facilitate a sale for conversion to homeownership or continued use as affordable rental housing. The grants will be especially effective in neighborhoods that have moved up sharply in value since the units were originally built, and in which the landlords' incentive package is unlikely to be sufficient incentive.

Owners not receiving a bona fide response under right of first offer during a 15-month period after they have declined to accept the financial incentives will be able to prepay their mortgage loans. HUD expects that very few owners will exercise their right to prepay rather than accept incentives or sell their properties for continued use by low-income households. In these few instances, existing tenants would still be protected. Eligible tenants would receive vouchers or certificates; special-needs tenants and households in low-vacancy areas would be guaranteed continued occupancy at affordable rents for 3 years; and all tenants who choose to move would receive relocation assistance.

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[1] Programs to enable residents of public housing and other HUD-assisted housing to own their own homes and apartments are part of a separate priority, Empowering the Poor Through Resident Management and Homesteading, and are discussed in Chapter 3.

[2] These estimates are low in that they exclude homeless displaced families and handicapped or disabled single persons who also qualify for assistance. These families and individuals are not enumerated in the *American Housing Survey*.

[3] U.S. Department of Housing and Urban Development, *Priority Housing Problems and "Worst Case" Needs in 1989*, Washington, D.C., June 1991.

[4] HUD budget figures summarized by the Office of Policy Development and Research.

Create Jobs and Economic Development Through Enterprise Zones

Background

Historic changes in both the U.S. and global economies during the postwar period have had powerful impacts on the Nation's urban centers. This period has been characterized by tremendous growth in the American economy and workforce. Total civilian jobs increased from 57 million in 1947 to about 117 million at the beginning of 1990. Some 19 million new jobs were created in the past decade alone.

This long-term economic growth has been marked by revolutionary changes in communications, transportation, and international competition. The changes have decentralized many manufacturing industries and commercial establishments, which have moved away from the old central business districts of the downtown areas. The decentralization movement has spread out and broadened the national economy, distributing prosperity more widely than ever. Moreover, it has been accompanied by the creation or expansion of sophisticated industries in the inner cities that have brought prosperity to educated urban professionals.

Yet a frontier remains in the midst of this economic prosperity—the ghettoes and barrios that experience unconscionable levels of poverty, unemployment, and despair. The Nation's cities remain home to millions of Americans, especially minorities, older citizens, and recently arrived immigrants. Many of these urban residents are desperately poor. Small neighborhood-supporting enterprises and jobs are needed in the central city areas more than ever—yet even the most essential services, stores, and other facilities are often missing from these core inner-city communities. Incentives are needed to encourage job creation and entrepreneurial activity in blighted urban neighborhoods and in poor rural areas.

Past Federal Efforts at Urban Revitalization

Over the past 40 years, the Federal Government has mounted a wide variety of well-intentioned programs to improve the conditions of low-income urban residents and inner-city areas, among them the Urban Renewal Program, the first war on poverty, the Model Cities Program, and the Urban Development Action Grant Program. Each has made some positive contribution, but these programs ultimately failed to achieve their goals and were terminated, usually because of strategic flaws in design or failure to recognize the central significance of incentives for individuals to generate enterprise, invest and save, and create employment. In many cases, funds ostensibly intended for the urban poor have been diverted to politically well-connected middlemen such as contractors, developers, lenders, local officials, and lobbyists.

Urban Renewal, enacted in 1949, was the first major urban program. It provided Federal subsidies for local efforts to redevelop deteriorated neighborhoods by condemning slum properties, razing the buildings, and writing down land costs so that new construction could take place at lower total costs. Local private developers or public development authorities could buy the cleared land and could plan and rebuild middle- and upper-income housing and new commercial districts. The program succeeded in renovating some neighborhoods and downtown areas, but in most areas it took years to show any tangible progress. Moreover, the program was strategically flawed. It focused on places rather than people, and it displaced low-income people from their homes and neighborhoods.

President Johnson established a new Office of Economic Opportunity (OEO) in the mid-1960s to wage his war on poverty. This effort had worthwhile objectives, and it launched two successful programs—Head Start and the Job Corps—that continue today to prepare disadvantaged young people for productive lives. On balance, however, the war on poverty relied too heavily on government direction instead of the incentives of free enterprise, and it sometimes stalemated change by funding quasi-public community action agencies and "citizen-participation" activities that fought established governments to a standstill. The resulting local political confusion and turmoil inhibited successful neighborhood revitalization where it was most needed. Ultimately, the OEO was disbanded and its successful programs were transferred to other agencies—Job Corps to the Department of Labor and Head Start to the Department of Health and Human Services.

The Model Cities Program was established in 1966 in the newly created Department of Housing and Urban Development at a time when urban riots were spreading across the Nation and the inadequacies of the Urban Renewal Program were being recognized. The Model Cities Program broadened the Federal approach to include social programs. In national competitions, the Model Cities Program provided Federal grants to selected local model cities agencies that had identified neighborhoods in need of revitalization and had submitted plans for upgrading these neighborhoods. The plans typically concentrated generalized Federal urban-assistance moneys in model cities areas at the expense of other urban areas. That approach temporarily raised the living standards for residents of model cities neighborhoods and thus moderated some of their problems. It did not make much headway, however, in solving their basic economic deficiencies through creation of permanent productive jobs in either the private or the public sector.

In 1974, the activities of both the Model Cities Program and the Urban Renewal

Program were folded into a new Community Development Block Grant (CDBG). The change was part of President Nixon's New Federalism concept, giving greater discretion to local governments in spending Federal assistance in their distressed areas.

The Urban Development Action Grant (UDAG) Program was created in 1977. Federal grants were made on a competitive basis to local governments that had distressed urban communities. Local governments used UDAG funds to make loans to private developers and to industrial companies to implement economic development projects, including housing. These loans were designed to leverage private investment and to create new jobs. Although the program was popular with local governments, appropriations ceased in FY 1989. Termination came in the midst of mounting Federal budget pressures and a growing belief that many of the UDAG projects would have been undertaken by private investors even in the absence of the UDAG loans.

In spite of these and other major Federal efforts to deal with economic decline in parts of American cities, data continue to show a disproportionate incidence of unemployment, poverty, and concentration of low-income households in inner cities:

- According to the Census Bureau's *Current Population Survey*, city poverty rates have fallen since 1983, but poverty is more common in cities than in the rest of the country, especially among children and single-parent families.

- New research using American Housing Survey data on inner-city areas with high poverty concentrations shows that higher income residents, including minorities, were leaving such areas during the 1980s, while poor, unemployed, and welfare-dependent families and individuals were moving in. These deteriorating areas have high rent burdens as well as inadequate housing. In many areas, housing is being abandoned, and crime and drugs are prevalent.

- Rates of unemployment are much higher in the inner cities, especially among minorities and youth, than in the country as a whole.

The disproportionate levels of unemployment and poverty in central cities represent an irrecoverable national waste, a tragic loss to society as a whole, as well as to the individuals involved. Not only are these unemployed or underemployed Americans left behind as the economy becomes more sophisticated, but also the economy itself is weakened by the costs of providing subsistence-level welfare support and coping with the social problems that stem from despair and frustration.

This Administration regards the poor and unemployed not as a drain on resources, but rather as representing an enormous potential for producing new wealth for themselves and for the whole society. Therefore, Federal policies must be designed to empower the urban and rural poor and to offer them new, expanded opportunities for productive work and enterprise. Empowerment will expand the economy further, rather than simply redistributing static and limited resources that government has drawn from the present wealth of working Americans. This is the logic of enterprise zones.

The Success of State-Level Enterprise Zones

While legislation to establish Federal enterprise zones using tax and regulatory incentives has been pending in Congress for most of the past decade, State governments have taken the lead. In 1982, Connecticut and Florida became the first two States to enact enterprise zone legislation. Since then, 37 States and the District of Columbia have adopted legislation in some form, and at least 33 States as well as the District of Columbia have designated at least one enterprise zone.

State enterprise zone programs vary widely in terms of eligibility criteria, designation processes, numbers of zones, and incentives offered. These programs, however, share a common core: all require evidence of economic distress and all are designed to encourage local entrepreneurial activity and business success. Most also emphasize the importance of benefits to low-income people in job creation and entrepreneurial opportunity.

State enterprise zones appear to have had a significant economic impact. *Business Facilities Magazine* reported, in May 1989, a survey showing that "... the Nation's State-level enterprise zone programs have generated approximately 184,600 new jobs, have been instrumental in retaining 169,600 existing jobs, and have brought in $18.1 billion in new capital investment." Clearly, enterprise zones have not only opened up economic opportunities for the poor, but they have also energized State and local governments to bring a full range of powers to bear on the problems of inner-city unemployment, education, crime prevention, and poverty.

The same conclusions are reached in the few reasonably rigorous efforts to evaluate State enterprise zone programs. Studies of individual States demonstrate the efficiency of various tax incentives:

- *New Jersey.* State enterprise zone officials say that more than $1 billion has been invested in State zones and that more than 14,000 jobs have been created by this investment. The State commissioned an evaluation by a private research group to complete a survey of businesses affected by the enterprise zone program and to assess the cost-effectiveness of this effort.

  This evaluation concluded that: the sales tax exemption for purchase of personal property by enterprise zone firms was the single most effective incentive offered in the zone; the tax rate reductions were cost-effective, in that new revenues exceeded the costs of the incentives; most new or expanded firms in the zones cited tax incentives as the primary or secondary reason for their actions; and cities with enterprise zones enjoyed a faster rate of economic development than similarly situated New Jersey cities without the zone designation.

- *Indiana.* About 12,000 jobs have been created in Indiana's enterprise zones. A 1989 study of growth of jobs and use of incentives in the zones reported that the average "tax expenditure" per new job created in 1987 was $4,172. The overall cost of incentives per firm was $12,307. This figure compares favorably with costs per job and costs per firm assisted by direct loan or grant incentives. The report showed that there were many indirect benefits to the city from expansion of jobs in the zones. Costs in increased wages paid to new employees were estimated to be 6 cents per dollar. The study was critical of the tax credit on inventories in the State program because it had a high cost in terms of revenue loss for each job produced.[2]

- *California.* A 1988 study by the Auditor General of California concluded that enterprise zones in depressed urban areas grew at a faster rate than did the counties in which they were located. Not all this growth can be attributed to tax incentives, however, because many firms expanding in the zones did not use these incentives.[3]

On a broader level, Rodney Erikson and Susan Freedman, using State enterprise zone data collected by HUD for the mid-1980s, concluded that States with stronger zone incentives had higher rates of job formation in their zones than did those with weak incentives, but States with too many competing enterprise zones also had slower than average job formation rates in their zones.[4]

A followup study by HUD of State and local enterprise zones incorporating 1989 data concluded that the most effective State and local incentives offered to attract business investments were: a tax credit for hiring new employees, an investment tax credit, and a sales and use tax exemption for building materials, equipment, and machinery purchased by firms locating in the zone. State coordinators believed that a high level of support from local elected officials was the most effective component provided by local enterprise zone programs. In fact, the zone designation served as a mechanism for local officials to develop a communitywide strategy to attract new firms and retain existing ones and even to pursue other related social goals.[5]

State enterprise zones have offered a useful laboratory for testing alternative approaches to economic and community revitalization under different initial conditions. A review of State statutes shows a rich variety of institutions in the zones, a wide variety of incentives, and differing methods of zone selection. Zone conditions and locations have varied widely from small towns in rural depressed areas to large decaying sections of center cities.[6]

Experience with State programs not only clearly demonstrates the flexibility and adaptability of the enterprise zone concept, but also strongly suggests that the effectiveness of enterprise zones should not be assessed solely on the narrow basis of tax expenditures versus revenue benefits, even though in many cases the zones apparently have paid for themselves. More fundamentally, enterprise zones offer a mechanism for marshaling the energies and potential of the urban and rural poor as well as the full range of State and local resources in pursuit of broad social goals, especially developing jobs for low-income Americans.

The State experience is promising, and can be made even more effective with the addition of Federal incentives.

Federal Enterprise Zones

The Bush Administration is committed to the economic redevelopment of America's inner cities where minority-owned businesses are concentrated. These businesses total fewer than 800,000 out of more than 12 million American enterprises, which is less than 7 percent. This Nation should set a target of greatly expanding the number of minority-owned businesses by the end of this century.

The Administration is convinced that Federal enterprise zones will not only encourage entrepreneurship and expand employment opportunities in urban areas with high poverty and high unemployment levels, but also will make the crucial difference in the effort to restore the growth and vitality of many inner-city areas.

Therefore, the Administration has included enterprise zones in its FY 1992 budget and has proposed enterprise zone legislation to Congress. The proposal would repeal and replace the enterprise zone legislation of 1987, which permitted the symbolic designation of 100 Federal enterprise zones. The 1987 authority was never used; it provided no incentives for new entrepreneurial activity in the zones or for workers to leave welfare rolls for productive private-sector employment.

The Administration's proposal would permit HUD's Secretary to designate 50 Federal enterprise zones—one-third of them in rural areas—and to offer three major tax incentives within the zones, as is explained below.

Congress did not deal with repeal of the 1987 enterprise zone legislation in its omnibus housing legislation of 1990 and did not include enterprise zones in the Cranston-Gonzales National Affordable Housing Act of 1990. Because of the importance of enterprise zones to inner-city economic development, however, President Bush announced a new enterprise zone initiative to honor people's dignity and ability on May 3, 1991. One week later, on May 9, 1991, Senator Danforth introduced S. 1032, the Enterprise Zone Jobs Creation Act of 1991. The bill was co-sponsored in the Senate by Senators Lieberman, Kasten, Grassley, McCain, Johnston, Bond, Garn, Mack, Cochran, Smith, Lott, Craig, McConnell, Gorton, Seymour, and D'Amato. A similar bill, H.R. 23, Enterprise Zone Jobs Creation Act of 1991, had already been introduced in the House by Congressman Rangel. Congressman Rostenkowski has also independently introduced a Federal enterprise zone bill in 1991. Although this bill and the Administration's bill differ significantly in some areas, the bipartisan support and interest by this Congress mark a meaningful step forward.

Incentives Within Enterprise Zones

The Administration's enterprise zone proposal is carefully designed to stimulate entrepreneurship and economic development with maximum effectiveness.

> *It would abolish the tax on capital gains on tangible assets used in the active conduct of an enterprise zone business located in a Federal enterprise zone for at least 2 years.*

Under the Administration's enterprise zone proposal, the tax would be abolished within a clearly defined framework that protects against abuse. This incentive is designed to make more seed capital available for investment in new enterprises within the zone area, to make risk-taking in the enterprise zone more attractive for new entrepreneurs, and to focus job-creating potential where it is needed most—in depressed areas. The Administration is confident that this incentive will help to create a whole new generation of small-business entrepreneurs and community leaders, set in motion a process of self-improvement and job creation, and above all restore hope in the inner cities of America.

To qualify for this proposed exemption, the capital gains must accrue during the time the asset is used in an enterprise zone business. To establish a basis, existing tangible assets located in a zone must be appraised at the time the zone is designated. Moreover, to be eligible for the exemption, a firm must have operated in the zone for at least 2 years, must be engaged in the active conduct of business in the zone, and must have substantially all of its employees working in the zone.

> *Personal income taxes would be deferred for small investors on a portion of their current annual incomes (subject to lifetime caps) by "expensing" purchases of stock in enterprise zone businesses.*

This incentive is also designed to provide inner-city entrepreneurs with the seed capital they need to start up small businesses.

Because new small businesses typically have little or no business tax liability in their first years, direct business tax reductions can encourage investment in only a limited way. Therefore, the Administration proposes giving investors a deduction on their personal income taxes for amounts up to $50,000 in equity investment in Federal enterprise zone businesses in the year the investment is made, with a $250,000 lifetime limitation. This expensing of personal investment is one of the most innovative and potent features of the Administration's enterprise zone proposal.

The initial revenue costs of equity expensing would be recaptured eventually because the entire amount of the investment will be taxed as ordinary personal income at the time the investment share is sold. Federal income taxes would simply be deferred, not eliminated.

Expensing would be available for investment in corporations having less than $5 million of total assets, as long as the investments coincide with comparable increases in the corporation's tangible assets in the enterprise zone. Substantially all the activity of qualified corporations must be located in enterprise zones. Amounts would be subject to existing code limitations, including the alternative minimum tax. For example, expensing when used in combination with other tax incentives would not be permitted where the result is more than a 100 percent tax reduction.

A 5 percent refundable tax credit on personal income taxes would be applied to the first $10,500 of wages earned in an enterprise zone by workers with total annual wages below $20,000.

This incentive is designed to encourage inner-city residents to leave welfare assistance programs and take private-sector jobs that will help them break out of poverty and begin productive lives.

The Administration intentionally designed the Federal tax incentives of the proposal with new and small entrepreneurial activities as a priority. The elimination of the capital gains tax applies only to new growth in value. In addition, the expensing provision for stock purchases is limited to firms with total assets of less than $5 million; small to medium-size companies would benefit. Finally, the income tax credit would apply only to disadvantaged workers with low incomes.

The Administration's draft legislation includes precautions to protect against abuses and unproductive tax sheltering and asset churning.

Competitive Selection

The Administration's proposal recommends competitive designation of Federal enterprise zones. Fifteen zones would be designated in each of the first 3 years after enactment of the legislation, and a final five zones in the fourth year. These Federal enterprise zones could be new zones or previously designated State enterprise zones.

Federal designation of enterprise zones would be based on distress criteria; the willingness of State and local governments to mount significant efforts to overcome poverty and unemployment in the zone, as demonstrated in their proposed plan of action; and the likelihood that planned State and local efforts coupled with Federal tax incentives would lead to significant results in reducing poverty, unemployment, and related social problems in the area.

State and local applications would have clearly stated goals and demonstrate how the combined incentives would contribute successfully to the achievement of those goals, particularly those with respect to employment and income.

Some preference for Federal enterprise zone designation could be given for States and localities that offer relief from land-use regulation, zoning laws, real estate taxes, building codes, and rent control.

Similarly, priority could be given to States and localities that strengthen community drug-enforcement programs, anticrime efforts, services such as child care, and neighborhood infrastructure, or to cities that plan use of UDAG loan-payback funds as seed capital for enterprise zones. Finally, preference could be given to State and local efforts to strengthen education and training efforts, and thus have a direct effect on jobs for the unemployed or welfare recipients within the zone.

Implications of the Proposal for Federal Enterprise Zones

The Bush Administration believes that the proposed Federal enterprise zone program will be one major weapon in a new war on poverty. Enterprise zones will encourage inner-city and rural economic growth by providing jobs for poor people who are unemployed because of barriers to opportunity or work disincentives inherent in welfare programs. Federal enterprise zones will encourage thousands of unemployed Americans to reenter the economic mainstream as productive citizens.

Some past urban programs have subsidized inefficiency and hampered structural readjustment in inner-city areas. Enterprise zones encourage efficiency and modernization where it is most necessary. Enterprise zones will not keep unprofitable enterprises in business simply by virtue of tax incentives. New ventures that would not have existed without enterprise zone incentives will be providing new jobs for workers and earning rewards for entrepreneurs, and they will be paying additional taxes to government.

Americans are rightly concerned with the problems of poor urban and rural areas that have not enjoyed their share of the national prosperity during the past decade. Federal enterprise zones can assist these areas in meeting their income maintenance and economic development goals more effectively and more efficiently than by relying on present-day Federal assistance programs.

Federal enterprise zones should not be viewed as a panacea or as a replacement for other long-standing Federal assistance and service programs. The Job Corps will continue as a training program for disadvantaged youth. Head Start will continue to prepare disadvantaged children to succeed in elementary school. In addition, the current wide range of federally supported programs will continue to provide for the basic needs, education, and training of low-income residents.

The Administration does believe, however, that enterprise zone development will eventually reduce the need for these assistance programs by providing incentives to entrepreneurs to create jobs for people on assistance, and incentives to poor people to take private-sector jobs and escape the welfare trap.

As a beginning, to be sure, the Administration proposes Federal enterprise zones as an experimental program that will be adjusted in the light of practical experience. The Administration is convinced, however, that the zones will make a crucial difference by coordinating resources of governments and the private sector in a productive partnership that brings new jobs, new hope, and rising income levels to America's pockets of poverty.

[1] New Jersey Department of Commerce, Energy and Economic Development, *Urbanomics, The New Jersey Enterprise Zone Program: An Evaluation*. July 1989.

[2] John A. Papke, *Monitoring Indiana's Enterprise Zones: A Second Year Report*. Center for Tax Studies, Purdue University, West Lafayette, Indiana, October 1989.

[3] California Auditor General, *Report by the Auditor General of California: A Review of the Economic Activity in the State's Enterprise Zones and Employment and Economic Incentives Areas*. June 1988.

[4] U.S. Department of Commerce, *Enterprise Zones: An Evaluation of State Government Policies*. September 1989.

[5] David Rymph, *Enterprise Zones With Competitive Programs—Performance and Effectiveness*. HUD, June 1989.

[6] Jack Underhill, *Summary and Analysis of State Enterprise Zone Statutes*. HUD, December 1989.

Empower the Poor Through Resident Management and Homesteading

Background

In 1937 the Federal Government began a program of providing public housing to provide temporary shelter for people whose current income was insufficient to secure housing in the private sector. Today, it is not uncommon to find third- and fourth-generation public housing families who have never known anything else but "project living." Paradoxically, at a time when there are lengthy waiting lists to get into public housing, a growing number of longtime public housing residents question whether below-market rents justify living in projects that suffer from rising crime, vandalism, drug-related violence, and neglect—despite Federal outlays exceeding $4 billion per year.

Out of this tragic reality has surfaced a grassroots movement of public housing residents dedicated to improving their communities environmentally, socially, and economically through resident management. Where resident involvement and participation through self-management have been put into place, residents have demonstrated that they can:

- Influence the environment that shapes their lives;
- Eliminate many of the nightmarish realities of public housing; and
- Provide solid community leadership that promotes social and economic programs to improve the lives of residents, and brings new hope for future self-sufficiency.

Most Federal housing assistance to the poor has taken the form of rental subsidies as opposed to homeownership assistance. The rental subsidies historically have been concentrated in specific buildings or projects, either public housing or privately owned, federally subsidized housing projects. Such concentration has inevitably narrowed the horizons of many of the poor, cutting them off from wholesome contacts with families on higher rungs of the income and opportunity ladder. As a result, stigmatization and problems of crime and neglect have often conspired to smother the aspirations of poor families and thwart their efforts to achieve self-sufficiency. Low-income families have found themselves trapped in a form of housing welfare, unable to build for the future or develop sufficient power and prosperity to help themselves emerge from the stifling effects of dependency.

The Bush Administration recognizes that providing permanent shelter alone is not enough, nor should it be the only goal of the Federal Government's housing policy. Better housing is important, but lasting improvement requires that housing be linked to supportive services that change residents' economic status and behavioral patterns. Residents need to be given the opportunity to develop the habits and disciplines required to succeed in employment and entrepreneurship. Opportunities to do so can be maximized when residents have incentives to become actively involved in events that affect their communities and in the responsibilities of managing their own homes. The Federal Government must not view housing only in terms of tax and financial arrangements or merely as "bricks and mortar." Policymakers must recognize that involving residents in the management of their communities will produce enduring benefits to the residents and the rest of society.

In November 1990, a Joint Resident Initiatives Declaration was signed by national resident and public housing leaders, recognizing the rebirth of human opportunities in public housing communities. This Declaration emphasizes the empowerment of residents through resident participation and management, economic development, supportive services, and homeownership opportunities. This historic agreement represents a "watershed" event, one that reaffirms that public housing is more than just shelter from the elements.

Resident Management

This Administration believes that resident management and homesteading offer powerful solutions to the endemic troubles of many of our public housing communities. These housing troubles stem in large measure from the residents' sense of a lack of control over their housing and their own destinies. There is a growing consensus among Public Housing Authorities (PHAs), Indian Housing Authorities (IHAs), and resident groups that, by implementing activities based upon resident empowerment and mutual partnership, upward mobility can be achieved through low-income housing programs.

Resident management typically evolves through a sequential pattern of activity. The first stage, resident participation, occurs when residents band together to form a Resident Council to work with the local housing agency on issues of concern. At this point, many residents first become involved in activities and enterprises that affect their lives, from child care centers to drug-security programs.

The next stage, resident management, may occur when a Resident Council begins to consider broader community control. The council may conduct an assessment of community needs to determine if resident management is an option that should be considered to obtain the improvements needed. If the council determines that resident management should be the community's priority, it then can seek funds to provide training in property management and other skills that will be required by the residents to manage their community.

Later, a Resident Management Corporation (RMC) is formed and enters into a contract with the PHA or IHA. The RMC, as a nonprofit organization, is then eligible to undertake management responsibilities, such as maintaining buildings and grounds, collecting rents, providing security patrols, and other related tasks. Residents clearly have a vested interest in the corporation's success—they may be hired to perform the management activities or encouraged to start community-service enterprises, such as small grocery stores, laundries, transportation services, beauty salons, catering, and janitorial firms.

When the RMC has 3 years of management experience, the group has the opportunity to purchase its public housing units at affordable prices.

Current Resident Management Programs

Since the Nation's first Resident Management Corporation was formed in Boston's Bromley-Heath project in 1972, interest has been growing in the concept of public housing residents taking charge of the operation of their communities. In 1976, HUD and the Ford Foundation funded a number of demonstration projects leading to the creation of four more RMCs. In 1985, the National Center for Neighborhood Enterprise initiated a 3-year resident management demonstration program with a $1.9 million grant from the Amoco Foundation.

These efforts helped spawn landmark legislation in 1987: an amendment adding a new Section 20 to the United States Housing Act of 1937, entitled Public Housing Resident Management. This measure was supported in Congress by a bipartisan coalition. It established important incentives and provided other changes, including the following:

- Removal of existing policy barriers that prevented the formation of effective resident management organizations;
- Greater control by resident managers over operating budgets; and
- Incentives for RMCs to keep operating costs down in the projects they manage by allowing them to use the surplus revenues for resident management activities.

The 1987 legislation also provided funding for grants for the development of new resident management entities and to provide them with technical assistance. The grants can be used to start new RMCs or expand established RMCs, to train residents in specific management functions, to provide certain administrative activities, to promote economic development activities, and for other activities to improve the lives of public housing residents.

Through Secretary Kemp's strong advocacy of resident management and other HUD public information activities, considerable interest has been generated and inquiries have been received for information and assistance in the development of resident management entities. This growing interest in resident management is also reflected in a dramatic increase in the number of applications for these grants. Based on the growing demand for this program, Secretary Kemp has established a goal of 250 resident management entities to be in training by 1992. To support this goal, between 1988 and 1990, 100 new and existing resident management groups received a total of $7.4 million in grants. In addition, HUD has awarded $5 million in grants for FY 1991 and will be awarding an additional $5 million for FY 1992.

The current 100 grantees are now in various stages of resident management development—from newly established entities in training to emerging Resident Management Corporations preparing to assume one or more management functions in specific public housing properties. There are now 13 full-fledged RMCs operating under contract with a PHA, engaged in some aspect of public housing management.

In 1987, the National Association of Resident Management Corporations (NARMC) was formally organized to promote the exchange of information among RMCs; to sponsor workshops, quarterly meetings, and annual conferences; and to promote widespread expansion and professional growth of resident management programs throughout the country.

In order to ensure that resident management training is effective, HUD is initiating a Resident Management Certification Program, in collaboration with NARMC. The objective of the program is to establish uniform training standards and curriculum materials tailored to the needs of resident organizations. The NARMC is joining HUD as a partner to assist in designing the training curriculum and to help ensure that resident groups will have the necessary education and knowledge to be certified as property managers, as required by HUD regulations.

To further promote and emphasize the importance of resident management, HUD has also participated in meetings and conferences with leading public housing associations, such as the National Association of Housing and Redevelopment Officials (NAHRO), the Public Housing Authorities Directors Association (PHADA), and the Council of Large Public Housing Authorities (CLPHA).

Economic Development and Supportive Service Programs

According to the American Housing Survey for 1989, only 23 percent of public housing families have wages as their major source of income. The others—a large majority—rely mainly on welfare, Social Security, or pension income. The goal of economic development and supportive services programs is to assist public housing residents in their efforts to become self-sufficient, through the development of marketable skills, the expansion of job opportunities, and the encouragement of entrepreneurial activity.

This Administration is helping public housing residents to transform their communities from welfare dependency into centers of productivity and economic growth. To achieve this goal, HUD has developed partnerships with the Departments of Health and Human Services, Education, Labor, and Agriculture to create a coordinated and comprehensive package that targets resources and services to low- and moderate-income families with the aim of encouraging them to work toward self-sufficiency.

In 1988 and 1989, HUD awarded $10 million to 112 grantees to establish child care facilities in or near public and Indian housing developments. This Child Care Demonstration has enabled parents of young children to seek, retrain, or train for employment. The $4.8 million in 1990 Child Care Demonstration funds was transferred to the Department of Health and Human Services under the partnership agreement and will extend Head Start programs to provide full-day child care services for children of all ages in public housing.

In addition, HUD is promoting partnerships with private-sector supporters for resident management and economic investment in public housing. For example, Kraft Foods, cooperating with HUD and the Department of Agriculture, is providing funds for a 3-year program for 10 public housing communities that will offer consumer awareness training and methods of economic empowerment under the Department of Agriculture's existing 4-H extension programs.

Homeownership Programs

Expanding homeownership opportunities for lower income families is the central component of the Bush Administration's Homeownership and Opportunity for People Everywhere (HOPE) initiative, which was enacted in the National Affordable Housing Act of 1990. As President Bush noted when he announced the initiative in November 1989, "The true measure of success is not how many families we add to housing assistance rolls, it's how many families move up and out and into the ranks of homeownership."

HOPE: Expanding Homeownership Opportunities Through Empowerment and Homesteading

The HOPE initiative builds upon and greatly expands a number of existing HUD programs now providing homeownership opportunities for low- and moderate-income households. The goal of HOPE is to empower low-income families with a stake in their community by providing funding and other assistance for resident ownership of public housing, Federal Government-held vacant and foreclosed properties, and financially distressed properties currently held in the Federal Government's portfolio or owned by State or local governments.

HOPE will expand existing homesteading programs that have had very limited funding, and will create new programs, particularly in relation to FHA and other distressed properties. Overall, a total of $855 billion was requested in the FY 1992 budget for planning and implementation grants for the three major HOPE homesteading programs. While Congress has enacted the Administration's proposals, it has reduced the funding for these programs to $351 million in FY 1992 as shown in Table 3.

Table 3

Funding for HOPE Grant Programs Designed To Stimulate Homesteading

(in millions of dollars)

	FY 1992	
HOPE Program	**President's Request**	**Enacted**
HOPE for Public and Indian Housing Homeownership Program	$380	$161
HOPE for Homeownership of Multifamily Units Program	$280	$95
HOPE for Homeownership of Single Family Homes Program	$195	$95
Total	**$855**	**$351**

Sources: Budget of the United States Government—FY 1992 and VA/HUD/Independent Agencies Appropriations Act for FY 1992.

HOPE for Public and Indian Housing Homeownership

HOPE for Public and Indian Housing Homeownership Program is for the sale of multifamily public and Indian housing properties to the residents. This HOPE program will create one funding source for the many activities that need to be undertaken to develop and implement a successful homeownership program that will convert multifamily properties into resident-owned condominiums or cooperatives.

In FY 1992, the President's budget requested $380 million and Congress enacted $161 million for this program for two kinds of grants: (1) planning and technical assistance grants to assess the viability of resident ownership and to prepare residents for homeownership; and (2) implementation grants for rehabilitation of projects, counseling, transaction/transfer costs, operating expenses, and capital and operating reserves.

The grants will be awarded on a competitive basis, and RMCs and other resident groups will be eligible to apply in addition to PHAs and IHAs. Applicants will be required to provide $1 for every $4 in HOPE implementation grants. Applicants will be required to protect the rights of nonpurchasing residents and to replace any housing sold. Section 8 certificates and vouchers will be available for relocating nonpurchasing households and the required replacement housing.

HOPE for Homeownership of Multifamily Units

This program will provide a single funding source for the many activities necessary for a successful homeownership program for foreclosed or distressed FHA or other Federal, State, or local government multifamily projects.

HUD requested a total of $280 million and Congress enacted $95 million in funding for grants in FY 1992. The funds will be made available through competitive grants for planning and implementation activities. The Department will make awards to RMCs and other resident groups and to nonprofit organizations and PHAs or IHAs. Applicants will be required to provide $1 for every $3 in HOPE implementation grant funds. Recipients will be required to protect the rights of nonpurchasing residents.

HOPE for Homeownership of Single Family Homes

HUD requested $195 million and Congress enacted $95 million in funding for grants in FY 1992 for this program. The grants will be offered to nonprofit organizations (or public agencies in cooperation with nonprofits) to purchase publicly held single family properties. Grants can be used to acquire and rehabilitate properties owned by HUD, the Department of Veterans Affairs, the Resolution Trust Corporation, and State or local governments. Nonprofit grantees must provide $1 for every $3 in HOPE implementation grants. All properties must be transferred to lower income families.

HOPE for Preservation/ Prepayment

A fourth HOPE program, HOPE for Preservation/Prepayment of Assisted Low-Income Housing, is primarily directed at the preservation of privately owned Section 8 assisted housing. However, a key element of this program focuses on providing residents of assisted housing with an opportunity to realize the American Dream of homeownership. As noted in Chapter 1, affordable units may be lost because owners of 360,000 units of HUD-assisted multifamily properties will become eligible over the next 15 years to prepay their mortgages and terminate their HUD-controlled and subsidized rents. Owners prepaying their loans are likely to charge market-rate rents and serve higher income households, or convert their properties to other uses.

Under the National Affordable Housing Act of 1990, HUD has been authorized to negotiate extensions of the contracts on HUD-assisted rental housing. However, where the owners of the assisted housing do not want to accept financial incentives to maintain their properties as affordable rental housing, they will be required to provide the residents with a right of first offer to purchase the property. HUD may authorize grants to Resident Councils to purchase and rehabilitate the properties for homeownership.

The budget request for FY 1992 for the preservation/prepayment strategy in the 1990 housing legislation was $718.5 million in assistance funds. Congress enacted $618.5 million. A substantial portion of this amount is expected to be used to support resident homeownership programs.

Resident Management Homeownership

The HOPE initiatives provide for the logical extension of resident management into actual resident ownership of public housing. The initiatives build upon a number of programs and demonstrations that have been enacted by Congress to permit resident ownership. These programs culminated in the Section 21 Resident Management Corporation Homeownership Program, authorized in 1987. Under this program, PHAs and IHAs are encouraged to sell their multifamily properties to RMCs that, in turn, are able to resell individual units to resident families.

The first sale under this program was in September 1990 with the transfer of 132 units to the Kenilworth-Parkside Resident Management Corporation (KPRMC), part of a phased sale of the 464-unit Kenilworth-Parkside development in Washington, D.C. Since the KPRMC began management of Kenilworth-Parkside in 1982, dramatic improvements have been experienced in the condition of the development and the lives of its residents. The improvements include a decline in criminal activity, reduction of drug trading and use, fewer teenage pregnancies, and an increase in school enrollment by Kenilworth-Parkside residents.

There is also a long-term value to the conversion of public housing to private ownership. The conversion of Kenilworth-Parkside has been documented by a recent study of that community by a major accounting firm. The study shows that the conversion will save the Federal Government $6 million in the first 10 years and $26 million after 40 years.

Education, job training, economic development, and supportive social services must be provided to ensure success and improve the lives of the new homeowners. HUD is also committed to providing post-sale subsidies (through the Section 8 Housing Assistance Program) for limited periods of time to eligible families to ensure affordability. All units transferred to homeownership must be in good condition and, as a general practice in public housing, the Department continues to pay any outstanding debt service on the original acquisition or development cost.

Section 5(h) Public Housing Homeownership Program

The Section 5(h) Public Housing Homeownership Program, authorized in 1974, permits PHAs and IHAs to sell single-family public housing units to individual residents and multifamily developments to resident-controlled condominium associations or cooperatives. HUD continues to provide the PHA or IHA with debt service subsidies after the sale, while the PHA or IHA agrees to sell at prices that residents can afford.

In 1985 the Section 5(h) Public Housing Homeownership Demonstration was initiated to encourage the sale of public housing units to residents under the regular Section 5(h) program and to test a variety of approaches. The PHAs participating in the demonstration have created successful homeownership options for their residents. A review of the local homeownership programs shows that public housing residents, when given the proper incentives, training, and counseling, can become responsible homeowners—individually or collectively in a condominium or cooperative. To date, approximately 720 units have been or are about to be transferred to ownership modes under the demonstration program.

Findings from an assessment of the demonstration have helped HUD in honing and shaping the requirements for implementing homeownership programs and also contributed to the overall design of the HOPE initiatives. Some of the major findings that are relevant for a successful homeownership program are as follows:

- Sponsoring organizations, and their governing boards, must be committed to the concept of providing homeownership opportunities to their residents.

- Homeownership programs are staff intensive and must be staffed with dedicated personnel, preferably with experience in activities associated with providing lower income homeownership.

- The scale of a homeownership program should be commensurate with the resident interest and eligibility to purchase.

- Training and counseling in the responsibilities associated with home ownership are very important to the success of the homebuyers and must be provided to all participants. This is especially critical for the cooperative or condominium forms of ownership.

- An early-on commitment for the financing of purchases should be obtained and in place by the time the first homebuyers are selected.

- Potential homebuyers should be carefully screened.

- The units selected for the program must be appropriate for homeownership, including being in good condition prior to sale.

Urban Homesteading Program

Under the Urban Homesteading Program, also established in 1974, HUD transfers repossessed, federally owned one- to four-unit buildings to local governments that, in turn, transfer the units to homesteaders who agree to maintain, occupy, and repair (often with Section 312 Rehabilitation Loan funds) the units for 5 years. In recent years, the program has been expanded to include properties in the inventories of the Department of Veterans Affairs, the Farmers Home Administration, and the Resolution Trust Corporation. Localities also are urged to resell properties in their own inventories. At this point, more than 140 communities have participated in this program and approximately 14,000 housing units have been homesteaded. Because of its similarity with the HOPE for Homeownership of Single Family Homes Program, the National Affordable Housing Act of 1990 terminated the Urban Homesteading Program as of September 30, 1991.

Lease-Purchase Programs

Two lease-purchase programs of HUD, the Mutual Help Homeownership Program for low-income Indian households and the Turnkey III Homeownership Opportunity Program, have helped many low-income renter households to build equity and convert to homeownership status. Under the former program, labor, mortgage and minimal downpayment commitments are required. Since 1962, over 5,000 units have been transferred to private ownership. Under the latter program, a total of 13,868 units in 165 developments have been constructed, of which approximately 7,600 have been transferred to homeowners. Experience gained under these two programs will be useful to PHAs, IHAs, resident organizations, nonprofits, and others interested in facilitating homeownership opportunities for lower income households.

Local Initiatives

Many local communities are using Community Development Block Grant funds to facilitate homeownership through a wide variety of counseling, acquisition, conversion, and rehabilitation arrangements. In addition, some local PHAs have been closely involved in providing homeownership opportunities to eligible low-income families through their own initiatives as well as through Federal programs.

HUD Program Support

Regardless of which of the foregoing programs is used, transferring ownership to lower income residents requires the most careful planning, not quick and easy conveyance. The operative purpose is not to dispose of public property, but to provide the foundation for the future self-sufficiency of poor families. To do so, the PHA, IHA, or RMC should typically first conduct a careful feasibility study. It must ascertain the acquisition and rehabilitation costs involved in a conversion and the recurring operational and maintenance (including capital replacement reserves) costs. These costs should then be compared with current and projected family incomes of the potential purchasers and the availability of post-sale subsidies.

To facilitate resident management and extend homeownership to more public and Indian housing residents, Secretary Kemp initiated several priority support programs. Established in the spring and summer of 1989, these new HUD initiatives provide the necessary administrative infrastructure for waging war on poverty in public and Indian housing. The key elements include:

- Creating the Office of Resident Initiatives within the Office of Public and Indian Housing to implement the Department's initiatives for resident management and homesteading, economic development, drug prevention, and other programs for upward mobility and self-sufficiency;

■ Establishing Resident Initiatives Task Forces in each HUD Regional and Field Office to design and monitor implementation of resident management and urban homesteading programs;

■ Assigning full-time Resident Initiatives Coordinators in each HUD Regional and Field Office, including training for them and for PHAs and IHAs and grassroots resident organizations in the implementation of programs;

■ Establishing specific Secretarial goals to be completed by 1992, i.e., 1 million new low-income and first-time homebuyers, 250 resident groups in training for resident management, and double the number of resident-run enterprises; and

■ Developing specific procedures needed to expand public housing resident empowerment initiatives.

Through a team-building approach, Resident Initiatives Coordinators and staff of the Office of Resident Initiatives strive to develop group partnerships for progress between resident groups and PHAs/IHAs, recognizing that the PHAs and IHAs are the conduits through which HUD provides services to the ultimate beneficiaries, the residents of public and Indian housing. The Office of Resident Initiatives is implementing several innovative concepts to assist RMCs in developing safe and secure neighborhoods and in acquiring the necessary education and training to enable them to become business owners or employers.

Enforce Fair Housing for All

The Fair Housing Amendments Act of 1988, which was supported by President Bush and passed by Congress, took effect on March 12, 1989. The act has two major purposes: (1) to add handicap and familial status to types of housing discrimination legally prohibited, and (2) to establish formal judicial and administrative enforcement procedures for resolving discriminatory housing practices. The new legislation builds on a series of fair housing laws that protect people from discrimination in the sale, rental, or financing of housing based on race, color, religion, sex, and national origin.

These laws began with the first great Civil Rights Act of 1866, passed by the 39th Congress elected at the beginning of President Abraham Lincoln's second term. In sweeping language, Section 1982 of that law prohibits public and private racial discrimination in the purchase, rental, ownership, and sale of homes and other real estate. Congress wanted to guarantee that blacks formerly held in servitude would not be prevented from enjoying their newfound rights as American citizens to own or rent homes. Section 1982 remains in the Federal code and has proved a powerful legal tool for individuals to challenge a variety of discriminatory practices in private housing.

More recently, Congress passed Title VIII of the 1968 Civil Rights Act and a 1974 Amendment to prohibit housing discrimination based upon sex. The Fair Housing Amendments Act of 1988 (FHAA) and Title VIII, taken together, constitute the Federal Fair Housing Act.

Despite these laws, evidence of housing discrimination in America is abundant. HUD's first national survey of housing discrimination against blacks, *Measuring Racial Discrimination in America*, published in 1979, concluded that "blacks were systematically treated less favorably with regard to housing availability, were treated less courteously, and were asked more information than were whites." In any visit to a rental agent, the chances that blacks would be subjected to discrimination were calculated to be 27 percent, and in a visit to a sales agent, 15 percent.

These percentages take on added emphasis when they are converted into an annual volume of roughly 2 million instances of bias against African-Americans searching for housing at the time of the survey.

Over the past several decades, scores of local studies have also documented prejudice in the housing market against women, blacks, other minorities, families with children, and the physically disabled.

Discriminatory housing practices not only violate the civil rights of individuals, but also translate into higher housing costs for minorities. The practice of segregation arbitrarily divides local housing markets, limiting the opportunities for minorities. When the housing supply is restricted because opportunities are denied, prices become artificially high to victims of discrimination, contributing to an already aggravated affordable housing problem.

This Administration firmly believes that fair housing rights and housing opportunity must advance simultaneously, because rights without opportunity are ineffective. HUD is vigorously committed to promoting equal housing opportunity for all citizens and to enforcing recently enacted laws against discrimination. The enforcement of fair housing is critical to the success of the Administration's HOPE agenda. The Department of Justice also has important responsibilities under the FHAA.

HUD and the Department of Justice will continue to work in partnership with State and local officials and the private sector to ensure that housing discrimination is eradicated.

The Fair Housing Amendments Act of 1988

The Administration's current efforts to combat discriminatory housing practices are led by Secretary Kemp's identification of fair housing enforcement as a Departmental priority. Central to this commitment is the FHAA. The FHAA is one of the strongest civil rights laws enacted in the past 20 years; it provides the cornerstone for enforcement of fair housing opportunities for all Americans; and it provides HUD and the Department of Justice with extraordinary means to safeguard housing opportunities for the broadest range of protected groups in history. Secretary Kemp and the Department of Justice are determined to make certain the FHAA is used aggressively to meet the challenge of eliminating bias in housing.

New Fair Housing Enforcement Powers

U.S. Department of Housing and Urban Development

The new Federal administrative enforcement process is critical to the successful protection of fair housing opportunities. The new law allows an aggrieved person 1 year to file a complaint with HUD. The Department is then required to investigate the complaint within 100 days to the extent practicable. During this time, HUD attempts to offer the parties the opportunity to resolve the matter voluntarily. If mutual agreement cannot be reached, HUD must decide whether reasonable cause exists to believe that a fair housing violation has occurred. If so, the Secretary issues a charge on behalf of the aggrieved person stating why HUD believes discrimination has occurred. Otherwise, the case is dismissed.

Once a charge is issued, any party has 20 days to elect to have the case heard in Federal District Court. If no party elects to go to Federal District Court, the case is heard before one of HUD's independent administrative law judges. A HUD attorney presents the case on behalf of the aggrieved person. The administrative law judge may award the complainant injunctive or equitable relief and compensation for actual damages (including damages caused by humiliation and embarrassment), and may assess a civil penalty of up to $10,000 for a first offense and $50,000 for a third offense within 7 years. The decision of the administrative law judge is subject to review by the Secretary of HUD, and the final HUD decision may be appealed to the U.S. Court of Appeals. The new law, by allowing for a hearing before an administrative law judge, can greatly expedite the remedy.

Prior to the FHAA, HUD could only seek voluntary resolution of complaints it believed to be a violation of the law. For this reason, some victims of housing discrimination generally resigned themselves simply to looking elsewhere for housing, because it was easier and faster than seeking a remedy through Federal District Court. Under the new law, HUD is committed to processing fair housing complaints in an efficient manner to provide the aggrieved person with a timely decision. At the same time, HUD recognizes its responsibility to protect the constitutional rights of all parties involved. In 1990 HUD issued 81 charges and obtained 499 units of housing from 1,709 complaints successfully conciliated. The total amount of relief HUD obtained for all complainants in 1990 was about $1.4 million.

Examples of Enforcement

The first discrimination case to reach an administrative law judge under the FHAA demonstrates the efficiency and effectiveness of the new enforcement mechanism. The HUD administrative law judge handed down a decision in December 1989, only 5 months after the complaint was filed. This timespan is exceptional when compared with other civil rights cases that have taken up to 2 years to decide in Federal District Court.

In this landmark case, a white Georgia real estate broker reneged on his contractual obligation to sell a property he owned, at his asking price, after inquiring into the race of the prospective buyers, who were black. Instead, he actively pursued and obtained white tenants who leased the house from him. After a preliminary investigation, HUD determined that prompt judicial action was necessary, and in July 1989, authorized the Department of Justice to seek temporary relief in Federal District Court. The court entered a temporary restraining order prohibiting the broker from selling or leasing the home to anyone but the initial black buyers.

HUD's investigation continued, and by August 1989, HUD issued a formal charge of discrimination. In December 1989, the HUD administrative law judge found the owner of the house in violation of the FHAA and assessed the maximum first-offense civil penalty of $10,000. The owner was ordered to pay approximately $20,000 in damages to the white tenants he had used to try to keep the black family out of his house. He also was ordered to complete the sale to the initial black buyers and to pay them $45,000 in damages.

Despite the administrative law judge's court order, however, HUD's ongoing enforcement efforts discovered that the real estate broker continued to undermine the sale of the home to the black buyers, and allowed extensive damage to the house. Accordingly, Secretary Kemp petitioned the U.S. Court of Appeals for the Eleventh Circuit to enforce the administrative law judge's order immediately. The court granted two emergency motions ordering the homeowner to comply with the administrative law judge's order, pending its ruling on HUD's enforcement actions. In August 1990, the Court of Appeals upheld the administrative law judge's order requiring payment of damages and the civil penalty of $10,000.

In another case, a white real estate agent in Philadelphia deliberately misled a prospective black buyer who had made a bona fide offer of $10,000 to purchase a house. The agent said that the property was sold when, in fact, that was not the case. Subsequently, the real estate agent sold the home to a white buyer for $9,000. According to the investigation report, the real estate agent explained that the prospective buyer "was a black lady and wouldn't be able to get up the money for the house." The agent made this statement despite the fact that the prospective black buyer tendered a $1,000 deposit. In this case, the parties voluntarily entered into a settlement agreement in which the respondent agreed to pay $5,000 to the complainant in compensatory damages.

U.S. Department of Justice

The Department of Justice now has powerful weapons to combat housing discrimination. The FHAA permits the Attorney General to seek monetary damages for aggrieved persons and also to seek civil penalties of up to $50,000 from first offenders or $100,000 from repeat offenders. Monetary damages are designed to compensate victims for the injury caused by discrimination, including actual loss of time or money, humiliation, mental anguish or suffering. Civil penalties are payable to the United States. They are assessed to vindicate the public interest in eradicating unlawful housing discrimination and to deter such discrimination.

The Department of Justice, under this Administration, has used its new enforcement tools aggressively, recovering over $850,000 in damages for aggrieved persons and civil penalties through settlements and litigation of cases brought since March 12, 1989.

Twenty-two criminal cases that the Department of Justice brought in 1989 were resolved by the end of the year. Seven cases, involving nine defendants, were pending. In 1989, through guilty pleas, the Department of Justice's success rate in obtaining convictions in completed cases was 100 percent; all 31 defendants in the resolved cases pleaded guilty. All defendants sentenced in 1989 received prison sentences ranging from 6 months to 5 years. Among the victims were:

- A black family victimized 2 days after moving into their home;
- An interracial couple;
- A black man and a white man sharing a home;
- A black family, active in the local NAACP and 10-year residents in their neighborhood;
- A black man renting an apartment in an all-white area;
- Black university students;
- A Vietnamese doctor building a home in the defendant's neighborhood; and
- A young Chinese woman who contracted to purchase a townhouse that the defendants wanted to buy.

New Forms of Prohibited Discrimination: Family Status and Handicap

Discrimination on the basis of family status is currently widespread; it represents the largest number of discrimination cases HUD has received since the implementation of the FHAA in March 1989. In numerous cases, families with children have been systematically excluded from apartment and condominium complexes. A highly publicized case in Florida illustrates the problem. The board of directors of a condominium that prohibited children ruled that a remarried father could not take in his daughter following her mother's death. The condominium association continued to press the family to turn the daughter out, even after the family had put its apartment up for sale.

(Under the FHAA, housing that qualifies as "housing for older persons" is exempt from accepting families with children. This generally includes "housing intended for, and solely occupied by, persons 62 years of age or older," and "housing intended and operated for occupancy by at least one person 55 years or older, per unit.")

By prohibiting discrimination on the basis of family status, this new legislation gives added protection to families with children under the age of 18. Families may no longer be denied housing merely because children are present. For example, a young Texas couple was told to vacate their one-bedroom apartment after the birth of their daughter. The apartment complex maintained an adults-only occupancy policy. The young family's attorney informed the property manager that the notice to vacate was unlawful under the FHAA. The manager agreed to extend the deadline to vacate for 2 months if the couple dropped their HUD fair housing complaint. The couple refused, and HUD determined that reasonable cause existed to believe that a discriminatory housing practice had taken place. In this case, the respondent decided to pursue the matter in Federal court. The case was settled by a consent decree in which the defendants agreed to pay $18,000 to the family and to adopt new rental policies and procedures that do not discriminate against families with children.

The FHAA also gives HUD far-reaching enforcement powers to protect housing opportunities for handicapped persons. The legislation defines a handicap as a "physical or mental impairment which substantially limits one or more of a person's major life activities." Handicapped discrimination includes (1) refusal to permit, at the expense of the handicapped persons, "reasonable modifications" of existing premises by the person seeking housing; (2) refusal to make "reasonable accommodations" in rules, policies, practices, or services to give a handicapped person full enjoyment of the dwelling and/or its amenities; and (3) failure to design and construct "covered multifamily dwellings," for first occupancy after March 13, that are accessible to handicapped persons.

On June 15, 1990, HUD published proposed Accessibility Guidelines to provide builders and developers with guidance on how to comply with the design and construction standards for covered multifamily dwellings. The final rule was issued March 6, 1991. These standards apply to discrimination against the handicapped, which is prohibited by the FHAA.

A recent case brought by then Attorney General Thornburgh against the city of Chicago Heights demonstrates the significance of the FHAA for handicapped persons. In this landmark case, Chicago Heights was charged with violating the rights of handicapped persons when it refused to permit the construction of a home for the developmentally disabled in a residential neighborhood. In reaching a consent decree with the Department of Justice, Chicago Heights agreed to allow the construction of the home for mentally handicapped persons and to pay $45,000 in damages, including $15,000 to the eventual occupants.

In another case, a handicapped tenant in Iowa, who suffers from a severe physical developmental disability, received a notice to vacate her apartment. She allegedly violated apartment rules by parking her car on or near the building entrance ramp and failing to place her trash in appropriate receptacles. According to the investigation report, however, the tenant, generally reliant on a wheelchair, improperly parked her car near the entrance ramp only when the "handicapped-designated" spaces were occupied by vehicles without handicap identification. Nonhandicapped residents of the complex had been cited for similar minor violations, but no one had been evicted because of them. This case was taken to Federal court, where the parties entered into a consent agreement in which the apartment management agreed to pay the complainant $15,000.

Meeting the Challenge of New Complaints

The FHAA was implemented in March 1989. Through December 1990, 14,027 fair housing cases have been filed with

HUD and State and local agencies with substantially equivalent fair housing laws. The majority of these complaints, approximately 8,125, were investigated by HUD, with the remainder processed by State and local agencies.

In 1990, there were more Fair Housing Act complaints filed with HUD and State and local agencies than in any previous year. The 7,675 complaints filed in 1990 exceeded the number filed in 1989—also a record-breaking year—by more than 500. Thus, the new Act presents HUD with an extraordinary challenge to resolve the cases it receives. The demanding caseload of fair housing complaints received since March 1989 reveals the scope of the problem.

Because of the legislative expansion of coverage to the handicapped and families with children, it is likely that complaints filed with HUD will continue to increase. Under Secretary Kemp, HUD has made impressive progress in adopting and refining the new enforcement procedures. The Department has taken the following actions:

- Provided more than 150 field investigators with additional training to improve the quality and timeliness of investigations;
- Developed and issued technical standards for comparable investigations and processing, thus ensuring comparability in the quality of reasonable-cause decisions made by the Department;
- Designed and instituted a new case processing and management computer system designed to improve efficiency and accuracy in reporting requirements;
- Eliminated the backlog of cases; and
- Hired additional administrative law judges and fair housing attorneys to handle the increased caseload.

Substantial progress occurred in 1989 and 1990 to resolve complaints on a timely basis and with meaningful results. HUD received 95 percent of its 1989 workload after implementation of the Act in March 1989. It was able to resolve almost one-quarter of its total inventory of 4,200 complaints within 100 days after they were filed, achieving $1.7 million in relief for complainants, a more than sixfold increase compared with 1988. In addition, in more than 200 cases, complainants obtained housing units as part of successful conciliations. The General Counsel's Office issued determinations that there was reasonable cause to believe that an act of discrimination had occurred in another 91 cases, 19 of which resulted in determinations that discrimination had occurred. Also, HUD referred a total of 59 cases to the Department of Justice, which filed more fair housing cases in 1989 than in any year since 1976.

Table 4

Distribution of Discrimination Complaints Received, by Type of Complaint

	Pre-Act 1988		Post-Act 1989	
	Number	%	Number	%
Cases	1,255	100	4,436	100
Race	1,096	87	1,633	37
Sex	297	24	459	10
Color	222	18	146	3
National Origin	90	7	161	6
Religion	27	2	72	2
Handicap	—		1,085	25
Familial Status	—		2,053	46

Totals exceed 100% because complaints to HUD frequently allege more than one basis for a complaint.
Source: Office of Fair Housing and Equal Opportunity, HUD, 1990.

HUD has also received many complaints from handicapped persons and families with children since the FHAA was signed into law. Family status was the basis for the largest share of complaints filed in 1990 (see Table 4).

The Secretary's New Authority for Immediate Discrimination Relief

The FHAA gives HUD's Secretary power to authorize the Attorney General of the United States to seek a temporary restraining order by a Federal district judge. This action can halt a transaction so that the housing sought by the aggrieved party will remain available. Secretary Kemp has demonstrated his willingness to initiate this extraordinary judicial action. He has authorized the Department of Justice to seek temporary restraining orders for immediate intervention in 10 cases. The following are examples of cases in which the Secretary decided such action was necessary:

- A Chicago couple with four children inquired about an advertised apartment. The apartment was particularly desirable for the family because of its size and ground floor location. At the time, the family was residing with relatives in a two-bedroom apartment. However, the owner reportedly said he would not rent to families with children. Based on the allegations and the family's need for the apartment, the Secretary initiated prompt judicial action temporarily to prohibit the owner from renting the unit to any other applicant.

■ A black woman in Chicago was told over the telephone that several units were available of the type of apartment that she was interested in renting. On four occasions, she visited the apartment complex and was told that no rental agents were available to show her the units. Consequently, she notified the local fair housing office, which dispatched a white "tester" who was shown an apartment promptly upon her visit to the apartment manager's office. Secretary Kemp authorized then Attorney General Thornburgh to obtain a restraining order prohibiting the apartment manager from leasing any studio or one-bedroom units until the prospective black tenant could view them.

The FHAA also gives the Secretary of HUD the additional authority to investigate housing practices to determine whether a discrimination complaint should be brought, and to file such a complaint on the Secretary's own initiative. As of December 1990, 15 preliminary investigations had been initiated, with the first Secretarial-initiated complaint filed in late August.

Other Fair Housing Activities

The Department of Housing and Urban Development is challenging the private sector as well as all levels of government to cooperate in eliminating discriminatory housing practices. Under Secretary Kemp's stewardship, HUD is vigorously implementing programs to include private groups, as well as State and local officials, in the effort to enforce fair housing for all.

The Fair Housing Initiatives Program

The Fair Housing Initiatives Program (authorized by the Housing and Community Development Act of 1987) allows the Secretary to provide funding to State and local governments and public or private organizations that promote programs to eliminate unfair housing practices. This program includes the Education and Outreach Initiative and the Private Enforcement Initiative.

The enhanced Education and Outreach Initiative is designed to increase public awareness of fair housing laws and standards. To meet this goal, the Department has made available more than $3 million for national and local educational campaigns to ensure that everyone knows the new fair housing requirements and the protected rights of victims.

The Private Enforcement Initiative focuses on private nonprofit organizations and other private entities engaged in programs to prevent discriminatory housing practices. This initiative can support local efforts, such as those where "testers"—matched pairs of simulated housing seekers of differing characteristics (e.g., racial or ethnic)—are sent into the rental and sales marketplace to investigate accusations of discrimination. This practice is similar to what was done in the Chicago example cited earlier.

The Administration is actively engaging the resources of the private sector through Voluntary Affirmative Marketing Agreements. These agreements commit housing industry representatives, working with local community groups, to promote fair housing practices. Signatory groups include local affiliates of the National Association of Home Builders, the National Association of Realtors, the National Apartment Association, the National Association of Real Estate Brokers, and the National Association of Real Estate License Law Officials. The Department has signed Voluntary Affirmative Marketing Agreements with more than 1,700 local industry groups.

To assist signatories of the agreements to implement them, HUD established local Community Housing Resource Boards, composed of representatives of community organizations or agencies that provide technical assistance to local housing groups. The boards furnish a platform for dialogue among community groups, the housing industry, and local government on important issues affecting equal housing opportunity.

The Fair Housing Assistance Program

The Fair Housing Assistance Program provides technical and financial assistance to State and local fair housing enforcement agencies for training and complaint processing. Recipient agencies must administer fair housing laws that are substantially equivalent to the Fair Housing Act. HUD currently recognizes 125 local and State jurisdictions as administering substantially equivalent fair housing legislation.

State and local governments that wish to continue participating in the program's assistance must amend their laws to provide rights, remedies, procedures, and judicial review substantially equivalent to the Federal law no later than January 1992.

The Department is hopeful that this program will provide an incentive to encourage States and localities to meet the new standards for certification, thus enabling them to process complaints of housing discrimination that arise in their own jurisdictions.

The Federal system prevents HUD from compelling lower levels of government to bring their laws up to date; however, the Department actively continues to encourage other jurisdictions that lack substantially equivalent fair housing laws to enact such legislation.

Help Make Public Housing Drug Free

The tragedy of drug abuse and the problems of crime, disease, and social disintegration that often accompany it have touched Americans at every economic level—from Wall Street to Main Street to the back streets. Not a day goes by without newspaper, magazine, or television coverage of infants living in hospitals where their addicted mothers abandoned them at birth; young children lured into the drug culture by promises of money, cars, and gold jewelry; teenagers shot on the street in a fight over drug turf; or successful businesspeople, athletes, or other public figures, their careers in ruins, seeking help at high-profile drug treatment centers.

The National Household Survey on Drug Abuse, sponsored by the National Institute on Drug Abuse, has published alarming data. In the 1990 survey, 8 percent of male respondents and 5 percent of females reported illicit drug use in the past month. Projected to the U.S. population as a whole, these users would represent about 13 million Americans. The numbers are even more troubling when broken down by age. Just over 8 percent of all 12- to 17-year-old children and almost 15 percent of young adults 18 to 25 reported using illicit drugs during the past month. Higher percentages admit using such drugs within the past 12 months, or at some time in their lives.

The National Drug Control Policy places a high priority on drug control activities in public housing. Although progress is being made, much remains to be done. Although HUD certainly has not been given the legislative mandate to solve the Nation's drug problem, it does have a special responsibility for those who reside in public housing communities. Moreover, although drug abuse is not centered in public housing, the fact is that it compounds and exacerbates poverty and other problems experienced by many public housing residents.

Low-income Americans trying to climb on the ladder of opportunity and searching for open doors to jobs, entrepreneurship, and economic success, can ill afford the physical, mental, emotional, and psychological damage wrought by drugs. Moreover, drug pushers and users who loiter in hallways or threaten other residents in public areas undermine law-abiding residents' pride and dignity as well as their hopes for improving their lives and their families' futures.

It is clear that one priority in the new war on poverty must be to exert every effort and power at HUD's command to clear out drug manufacture, use, and trafficking from public housing communities to restore freedom and hope to the residents.

HUD has undertaken a full range of new efforts to help conquer drug abuse and drug trafficking at public housing sites. The resources being brought to bear on these problems include information, education, training, aggressive management strategies, program evaluation, legislation, public recognition, and direct financial assistance.

This Administration is confident that the Nation can and will defeat the scourge of drug abuse in public housing, which will mark a signal victory in a larger war.

HUD's 10-Point Program

In April 1989, Secretary Kemp announced a 10-point plan for HUD's participation in an effort to fight drugs in public housing. That plan has become the basis for the Department's fight against drugs throughout the country.

Tighten Security in Public Housing

HUD is encouraging Public Housing Authorities (PHAs) to undertake efforts to recapture public housing complexes that have been taken over by drug dealers, and to improve the security and physical conditions at these locations so that the residents can peaceably enjoy their homes and surrounding environment. Many of these security efforts are demonstrated in the Chicago Housing Authority's successful Operation Clean Sweep, which evicted illegal residents, installed security fencing and other security devices, provided photo identification for legitimate residents, repaired damaged apartments and common property, and arranged for social services to help the residents improve the quality of their lives.

Streamline Eviction Procedures

HUD has worked to provide relief from some of the lease termination and eviction procedures that PHAs have found to be unnecessarily time consuming.

After the PHA in Alexandria, Virginia, appealed to him for relief from lease and grievance procedures that were hampering efforts to fight a local drug problem, Secretary Kemp set up a procedure for granting waivers. Where State eviction laws provide sufficient due process, HUD will grant a due-process determination waiver that gives relief from some of the HUD-required lease termination procedures, thus reducing the time required to evict. Forty such waivers have been granted to date. All PHAs have also been notified to amend their leases to include the following language, required by the Anti-Drug Abuse Act of 1988, to make it easier to evict a resident involved in illegal drug activity:

> *A public housing tenant, any member of the tenant's household, or a guest, or other person under the tenant's*

control shall not engage in criminal activity, including drug-related criminal activity, on or near public housing premises, while the tenant is a tenant in public housing, and such criminal activity shall be cause for termination of tenancy.

Seize Units Used for Drug Trafficking

HUD has notified PHAs of the opportunity to work with their local U.S. Attorneys to use the Federal seizure and forfeiture statutes to reclaim units being used for illegal drug activities. In June 1990, HUD announced the Public Housing Asset Forfeiture Demonstration Project. Since then, 37 cases, filed in 10 cities, have demonstrated the effective use of the Federal asset forfeiture laws to seize the leasehold interest in public housing units that are used for drug trafficking. PHAs and U.S. Attorneys have participated in this demonstration, which was developed in cooperation with the Department of Justice. Public housing residents must be given prior notice and an opportunity to be heard, except in exigent circumstances, before a unit may be seized.

Reclaim Vacant Units

PHAs have been encouraged to make certain that vacant units are properly sealed so they cannot be used as drug havens, and to see that such units are quickly prepared for rental to new families.

Improve Housing Quality and Quality of Life

HUD encourages the use of its programs to improve physical conditions in public housing. HUD seeks to restore pride and dignity to tenants, and to improve the quality of public housing residents' lives by arranging for education, training, employment, and entrepreneurial opportunities to help residents resist the lure of the drug culture.

Provide Hotlines and Central Information Sources

HUD's Drug Information & Strategy Clearinghouse (DISC) began providing information and referral services to the public on October 1, 1989. DISC operates an 800 number from 9:00 a.m. until 6:00 p.m. e.s.t. Two HUD Regional Offices are working with local PHAs to set up central databases for applicant screening to ensure that residents evicted for drug abuse in one jurisdiction are not simply moving to a neighboring community.

Encourage Resident Management and Other Empowerment and Prevention Programs

From FY 1988 through FY 1990, HUD's Resident Management Grant Program funded almost 100 resident groups. Sales of public housing to residents or Resident Management Corporations are proceeding under authority provided by Sections 5(h) and 21 of the United States Housing Act of 1937, as amended. The HOPE initiative will expand these opportunities for participation in the American Dream of homeownership. As discussed in Chapter 3, Resident Initiatives Coordinators have been named in HUD's Field Offices to assist PHAs and residents with these programs, as well as with their antidrug efforts.

Terminate Section 8 Leases

For many years the Section 8 certificate and voucher program regulations permitted a PHA to terminate assistance to a family if the family used its assisted housing unit for drug trafficking or if the family allowed the unit to be used by others for that purpose, because units must be used solely as residences. However, the PHA did not have a right to terminate assistance if a family member was engaging in drug-related criminal activities but was not using the unit for that purpose. The Moderate Rehabilitation Program gave the PHA even less flexibility. Therefore, HUD proposed regulations to ensure that all three programs provide the specific power for a PHA to deny assistance in cases where a family member engages in drug-related activity or violent criminal behavior. These new regulations were published in the Federal Register on July 11, 1990, and became effective on August 13, 1990.

Make Use of Comprehensive Improvement Assistance Program and Other Grant Sources for Fighting Drugs

Several sources of HUD funding that are available for broader purposes can also be used to fight drugs in public housing. In April 1989, HUD issued instructions defining the acceptable uses of Comprehensive Improvement Assistance Program and Community Development Block Grant funds for fighting drugs in public housing. Part of the operating subsidy provided under the Annual Contributions Contract (the basic subsidy agreement between HUD and a PHA) can also be used for this purpose. All of these can be powerful tools in the antidrug fight.

Support Youth Programs

Because of Secretary Kemp's strong belief in the value of sports and other recreational activities and cultural opportunities for discouraging young people from becoming involved in drugs, HUD has sponsored a competition for grants to support establishing or enhancing youth sports clubs in public housing. Awards as high as $25,000 per site, with a local dollar-for-dollar match, were given to PHAs in 34 States, Puerto Rico, and Washington, D.C., to pay for the acquisition, rehabilitation, furnishing, and operation of suitable sports club facilities.

The Office for Drug-Free Neighborhoods

To help bring to fruition his commitment to making public housing drug free, Secretary Kemp has created the Office for Drug-Free Neighborhoods. This office has been given the responsibility within HUD to develop activities that will implement HUD's 10-point program for fighting drugs and to go beyond that program in supporting grassroots actions. The office will focus its activities on:

- Providing aggressive enforcement efforts to secure the safety of public housing properties;
- Sharing effective prevention and intervention technologies, such as resistance programs, youth leadership, sports initiatives, parenting and family management, treatment referral, and developing recognition programs to reinforce creativity and success; and
- Furnishing policy direction, research, and technical assistance to improve housing-management capability.

The Office for Drug-Free Neighborhoods is based on the principle that local people are best qualified to influence the attitudes that must change in order to conquer the drug problem. Therefore, HUD's role is not to displace local activities but to provide leadership and support for those directly involved, and to encourage imaginative solutions and reinforce success. The Office provides grants, technical assistance, training, and clearinghouse services on drug issues.

Public Housing Drug-Elimination Grants

During FY 1989, the Office for Drug-Free Neighborhoods awarded $8.2 million in Public Housing Drug-Elimination Grants authorized by the Anti-Drug Abuse Act of 1988. PHAs with up to 500 units were eligible for a maximum of $100,000 and those with more than 500 units could apply for $250,000 for activities at a particular complex. Thirty-three large and 4 small PHAs in 17 States received grants. In FY 1990, this program was increased twelvefold. Under a Notice of Fund Availability published July 3, 1990, HUD awarded $97.7 million to 364 PHAs and IHAs in 46 States, the District of Columbia, and Puerto Rico. An additional $150 million is available in FY 1991. Starting in FY 1990, individual grants could be larger than in 1989, although the maximum size of any grant still depends upon the size of the applicant. PHAs may use these funds to support the following activities eligible under the Act:

- Employment of security personnel;
- Reimbursement of local law enforcement agencies for additional security and protective services;
- Physical improvements specifically designed to enhance security;
- Employment of individuals to investigate drug-related crime and to provide evidence in administrative and judicial hearings;
- Training, communications equipment, and other related equipment for

voluntary tenant patrols acting in cooperation with local law enforcement officials;

- Innovative programs to reduce the use of drugs in and around public housing; and

- Funding for nonprofit Resident Management Corporations and tenant councils to develop security and drug-abuse prevention programs involving site residents.

An evaluation of the grant program, sponsored by HUD's Office of Policy Development and Research, is underway. The evaluation will assess the application process used in FYs 1989 and 1990 and recommend ways to improve the awards in future years. HUD will also examine the problems and progress in implementing local efforts, evaluate the impact of the funded projects, and prepare materials to help grantees to assess and monitor their efforts.

Aid to Grassroots Action

While HUD can and should play a national leadership role in the fight against drugs in public housing, this is a war that will be fought and won not in Washington but on the streets and in the developments, neighborhoods, and communities of this country. It will be fought and won by senior citizens who are tired of being afraid to leave their home to go to the grocery store, by mothers and fathers who want better lives for their children, by community leaders who will not be intimidated by the threats of drug dealers, and by young people who know the difference between right and wrong and who aspire to succeed in life.

To assist managers of PHAs, Resident Management Corporations, and other residents of public housing with designing and implementing their antidrug efforts, HUD has undertaken a program to document, publish, and disseminate information about antidrug techniques and programs that may be used by local groups. The Office for Drug-Free Neighborhoods has established a Drug Information & Strategy Clearinghouse (DISC); the Clearinghouse responds to concerned individuals and gathers and distributes information about the abuse of controlled substances in public housing projects. Secretary Kemp has asked PHAs for details of their antidrug efforts. DISC is the focal point for dissemination of this and other information, and involves these activities:

- Secretary Kemp has written to all 3,300 PHAs asking for their advice, and they have responded by describing the antidrug efforts they have underway. All of these locally sponsored programs have been entered into the database at DISC, and information on them is available to anyone who requests it.

- At a HUD-sponsored national conference on grassroots efforts to fight drugs in low-income neighborhoods, many successful models were described that could work in other communities. A summary of the conference proceedings has been published.

■ Also planned is a three-volume resource book that will address the use of traditional public housing management tools for fighting drugs, the role of law enforcement, and the need for prevention and intervention services. The first volume on management tools has been published, and plans are underway for preparing the other two volumes.

■ A book of case studies of successful antidrug programs that can be implemented in public housing is also planned. The case studies will be drawn from programs identified in the Public Housing Anti-Drug Recognition Program, in the letters to the Secretary, at the conference on grassroots efforts, and from nominations from HUD Regional and Field Offices. Examples of the types of efforts to be included follow.

— The Hartford, Connecticut, PHA sponsors a drug prevention and awareness program called Project P.R.I.D.E.—prevention, research, intervention, and drug education. In cooperation with the city's welfare, police, and parole departments, as well as area hospitals, churches, and schools, the program provides information, counseling, training, and referral for treatment. The PHA has seen a reduction in public housing residents' involvement in drugs and an increase in those who are in treatment and recovery.

— The Buffalo, New York, PHA has a comprehensive treatment, rehabilitation, and counseling program for public housing residents. Using funds from the State, the PHA has worked with a local hospital to provide an outpatient treatment and counseling center and an inpatient detoxification and rehabilitation program.

— Concerned with the growing drug problem among young people, the Los Angeles, California, Parents of Watts program started a community school in 1983 using volunteer teachers to provide an opportunity for dropouts to receive individual attention and to catch up on their schoolwork in order to return to school. The school is located in a neighborhood that contains several public housing developments. It is now accredited by the Board of Education.

— In response to an increase in drug-related crime, the Boston, Massachusetts, Drop-A-Dime program created an anonymous crime hotline. Instructions are provided on how to give a tip that will provide the police with enough information to take action. The program works closely with the police, immediately passing on this information and receiving feedback on the results. Drop-A-Dime receives 300 to 600 calls per month, and provided information that helped lead to 10 Federal indictments.

Other DISC services include referrals to other information sources, provision of HUD regulations and legal opinions, sharing of resource lists, preparation of a quarterly newsletter, and identification and evaluation of model programs for recognition. DISC can also help PHAs to develop a plan of action for getting rid of drugs and improving the lives of residents.

Help End the Tragedy of Homelessness

The Administration's Commitment

Helping to eradicate the tragedy of homelessness is one of HUD's six priorities and a major goal of the Bush Administration. Few issues in American society today have awakened the Nation's sensitivities as much as the presence of homeless men, women, and children in communities across the country.

Within the Administration's commitment to wage a new war on poverty, ending the tragedy of homelessness is a central element. Many of the homeless need special support to achieve the independence that regular employment and entrepreneurship can bring. That support must tie housing assistance to the multiple contributory causes that underlie most homelessness: mental illness, addiction to alcohol and/or drugs, physical illness or abuse, poor coping and job skills, and insufficient income.

For those who become homeless, providing food and emergency shelter is usually not enough to help them achieve or regain self-sufficiency. Temporary shelter, although protecting people from the elements, does not offer a systematic means to get at the root causes of their condition. Many shelter residents keep recycling through the shelter system. They draw no nearer to solving their basic problems or obtaining permanent housing.

To break this cycle, assistance in making up for skill deficits, in overcoming mental and physical disabilities, in overcoming alcohol and drug dependencies, and in strengthening family support must be available, in addition to safe and permanent housing. For those able to benefit, job training to qualify for and find productive private-sector employment must also be available. Families may need a multiplicity of support services including counseling, training, and day care for their children. Without these rehabilitative and support services, the conditions that contributed to homelessness will continue, raising the risk of future repetition of the same problem.

The Administration also recognizes that many of the homeless—perhaps half or more—suffer from such severe, disabling conditions that they will require a different response from those who may be capable of reentering the mainstream in the short term. These hard-to-serve homeless need a comprehensive approach involving a high degree of medical and nonmedical support in order to become relatively self-sufficient.

The aim of Administration policy is to address multiple problems and root causes, so that the homeless can begin to benefit from the other elements of the new war on poverty. The Administration has pledged to develop properly structured programs to enable homeless people to live as independently as they can.

Americans have been generous in answering the call to help through volunteer organizations, local and national charities, and religious groups. Local and State governments, in partnership with the Federal Government, are also working to assist homeless people. In order to develop coordinated, focused, and effective efforts to help the homeless, however, it is first necessary to understand who they are and what their problems are.

The Homeless: Who and Why

It has been difficult to arrive at an accurate count of the number of homeless individuals. A study conducted by the Urban Institute estimated that over the course of 1 week in March 1987, there were between 490,000 and 600,000 homeless persons. To include components of the homeless population, the Census Bureau conducted a special enumeration effort during the 1990 Census.[1] This enumeration was designed to produce counts on the size of several components of the homeless population—those in shelters, those visible on the streets, and those leaving abandoned buildings during enumeration hours and other pre-identified places where the homeless have been known to congregate at night. The Census counts released from this enumeration show approximately 179,000 homeless people in shelters and approximately 50,000 visible on the streets in the early morning hours. Preliminary results have been greeted with mixed reactions. The Census Bureau is confident that it compiled a comprehensive list of shelter locations and did a good job enumerating those persons in shelters, but acknowledges there is much work to do in improving the enumeration of homeless persons who do not use shelters. Advocates question the validity of the Census counts for both shelters and the streets. Whatever the count, homelessness of any magnitude is unacceptable. Anna Kondratas, who as Assistant Secretary for Community Planning and Development is responsible for all of the HUD homeless assistance programs, has highlighted the futility of concentrating on numbers rather than on solutions:

> *. . . if there were only 300,000 homeless persons and permanent housing solutions were provided for 600,000, there would be poor people who could avail themselves of those solutions. More realistically, however, because current efforts are insufficient to provide permanent housing with appropriate services for even the 300,000, the issue is moot.*[2]

Even in the absence of a precise count, there is still a great deal known about homelessness. The homeless are not a homogeneous group, and their homelessness does not have a single cause.[3]

Approximately 85 percent of the homeless are adults (18 years old or over) and 15 percent are children. Single men comprise more than 75 percent of the homeless adults, or about 65 percent of all homeless. Families make up 20 to 25 percent of the homeless; over 80 percent of these families are headed by single women. Less than 1 percent of all homeless adults are in two-parent families with children.[4]

The average age of the homeless is approximately 36, with only a very small percentage over 65.[5] The fact that so many are in their prime years of life is both troubling and hopeful. These individuals have not been able to use their relative youth as an asset to build productive lives. However, many could benefit from programs that would help turn around their lives and have a long-term impact on their employability and independence.

An estimated one-third of the homeless are severely mentally ill, suffering from such disorders as schizophrenia, severe depression, or manic-depressive conditions. Some have been released from mental institutions, under deinstitutionalization policies, without follow-on care. Others, although currently severely mentally ill, cannot be committed to mental hospitals under recent legal decisions requiring proof that the person is likely to do harm to self or others before an admission may be made. About half of the mentally ill homeless also have problems with alcohol, other drugs, or both. In total, over one-third of the adult homeless population have chronic alcohol problems and, with some overlap, approximately 10 to 20 percent have problems with other drugs.

Physical impairments also take their toll. About half of the homeless have health problems such as hypertension, diabetes, circulatory disorders, traumas, and leg ulcers. Lack of regular medical treatment, malnutrition, and the generally precarious conditions of their existence also lead to many physical problems.

Homeless persons often lack fundamental coping skills that are essential in obtaining basic needs such as food and shelter. Even those who are physically and mentally healthy have very low incomes. The job history of homeless persons is irregular at best. On average, only 19.2 percent are reported to be employed at any given time. The average income of homeless adults is only about $130 per month, and half of all homeless adults receive less than $60 a month.[6] This lack of income makes obtaining housing almost impossible—for example, in both Chicago and Los Angeles less than 10 percent (8 percent and 6 percent, respectively) of the rental housing can be obtained for under $200 a month.[7]

For the unemployed as well as the unemployable, assistance programs such as Aid to Families With Dependent Children (AFDC), Supplemental Security Income (SSI), and General Assistance (GA) are supposed to provide a safety net. Yet even when eligible, many homeless do not receive this assistance because they are unable to cope with the system.

What Is Currently Being Done

State, Local, and Private Efforts

All sectors of the Nation have been responding to the homelessness problem. Soup kitchens and emergency shelters have been operated by charitable organizations since early in this century. A 1988 National Survey of Shelters for the Homeless showed that 9 of every 10 shelters are operated by private nonprofit groups, aided by many volunteers. In 1988 alone, approximately 80,000 people gave of their time to assist in homeless shelters, contributing 30 million hours. In 1987–88, private philanthropic foundations provided $28.5 million while the United Way raised an additional $118.6 million directly for homeless programs.

State and local governments have also been supporting programs to provide emergency health care, social services, emergency shelter, and transitional housing to homeless individuals and families. These programs were funded at $430 million in 1988, not including funds spent to match Federal grants. A recent HUD study of assistance networks in the Nation's five largest cities revealed a substantial combined State and local funding effort.[8] In New York, Philadelphia, and Los Angeles, where shelter is an entitlement for homeless persons, local funding sources (usually general revenues) provided $374.7 million, $23.3 million, and $13.4 million, respectively. Identifiable State funds for these cities totaled an additional $230.4 million, $11.8 million, and $13.7 million, respectively, in FY 1988. By comparison, total Federal homeless funds for the same year for these cities (exclusive of CDBG) were $113 million, $8.5 million, and $15.6 million, respectively.

Federal Resources

The Federal Government has augmented State, local, volunteer, and private-sector project funding in recent years. The Stewart B. McKinney Homeless Assistance Act of 1987 is the major Federal vehicle specifically targeted to help the homeless; its programs represent a dedicated commitment to recognize and respond to the needs of homeless people. In FY 1990, 19 McKinney Act programs provided assistance to homeless persons to reduce or prevent homelessness.

In FY 1990, the largest portion of Federal homeless assistance went toward housing, often with supportive services, followed by food and nutrition assistance and emergency shelter aid. Housing assistance included both transitional housing demonstrations conducted by both HUD and the Department of Health and Human Services (HHS), and permanent housing for the handicapped. Housing projects funded under these three programs, as well as emergency shelters, are generally run by nonprofit organizations. In addition, General Services Administration, in coordination with HUD and HHS, makes excess and surplus property available to homeless service providers.

The McKinney Act also provides funds for services. HHS funds health care, mental health, and supportive services for the homeless and demonstration treatment projects for the homeless who are chronically mentally ill or substance abusers. The Department of Veterans Affairs and the Department of Labor fund programs specifically for homeless veterans. The Department of Labor also funds demonstration job training projects. The Department of Education provides funds to enable States to set up educational programs for homeless children and adults.

In addition to McKinney Act programs, the homeless receive assistance from targeted assistance such as the Community Support Program of HHS and at least 70 more traditional Federal programs such as AFDC and SSI, and block grants for community development and social services. Substantial efforts have been undertaken to increase participation of the homeless in these programs. For example, Secretary Kemp has pledged that up to 10 percent of all units in HUD's single-family acquired-property inventory will be targeted to the Single Family Homeless Initiative. In total, about 1,800 homes are now under lease and HUD has sold over 230. Secretary Sullivan of HHS has supported demonstration projects and other outreach strategies for the Supplemental Security Income Program, and has made it a Department priority to work with other Federal agencies, States, and localities to help homeless children and their families take advantage of AFDC, Medicaid, Food Stamps, and other mainstream benefit programs.

The Administration is actively working to reinforce and expand its efforts on behalf of the homeless. As shown in Table 5, President Bush's FY 1991 budget provides nearly $900 million in targeted homeless assistance overall. The President requested approximately $1 billion for targeted assistance in FY 1992. Congress enacted $1 billion; however, it failed to fully fund major portions of the President's homeless initiatives. For HUD's homeless programs alone, the President's budget proposed $536 million in program funding, a substantial increase over previous funding levels of $172 million in 1989, $284 million in 1990, and $340 million in 1991. In FY 1992, Congress enacted $450 million for HUD homeless programs.

HOPE (Homeownership and Opportunity for People Everywhere)—Shelter Plus Care

While the McKinney Act funds a wide variety of programs to assist the homeless, linking housing, especially permanent housing, to programs that provide services requires a more concerted effort than can occur under the current McKinney Act programs, which specify

Table 5

Targeted Homeless Assistance Programs

Funding Levels by Agency
(budget authority; dollars in millions)

	1990	1991	1992	
	Actual	Actual	President's Budget	Enacted
McKinney Act Programs				
Housing and Urban Development	284.0	339.5	535.7	450.0
Federal Emergency Management Agency	130.1	134.0	100.0	134.0
Interagency Council on the Homeless	1.1	1.1	1.3	1.1
Health and Human Services	124.8	147.4	106.1	139.3[1]
Labor	11.3	12.7	0.0	9.3[1]
Education	17.3	17.1	0.0	34.8[1]
Veterans Affairs	30.0	31.5	33.0	33.0
Agriculture	70.0	70.0	70.0	70.0
Total: McKinney Act Programs	**668.6**	**753.3**	**846.1**	**871.5**
Non-McKinney Act Programs				
Health and Human Services	92.6	95.5	116.5	94.9
Agriculture	39.4	32.0	32.0	32.0
Defense	3.0	3.0	3.0	3.0
Total: Non-McKinney Act Programs	**135.0**	**130.5**	**151.5**	**129.9**
Total: Targeted Homeless Programs	**803.6**	**883.8**	**997.6**	**1,001.4**

[1] Estimated

the activities that can be undertaken. The McKinney Act programs have worked relatively well for those who are either temporarily without homes or have problems that are amenable to a short-term infusion of housing and supportive services, but they have not effectively served the needs of single homeless individuals suffering from severe long-term problems, such as mental illness or chronic substance abuse problems, or both. Thus far, the problems of these homeless individuals have been very difficult to cure, due to the persistence of the problems affecting them despite various treatment programs, the recurrent nature of the problems, and the challenge of linking the homeless into the social service system and assuring that they continue to receive the services they need. Moreover, few organizations are capable of treating those who have multiple problems, i.e., those who are both seriously mentally ill and alcohol or drug abusers. Mental health services and substance abuse services are not generally provided by the same entity or in a coordinated manner under the same program.

One of the central purposes of the Administration's HOPE initiative is to address the needs of homeless persons who are suffering from chronic disabilities. The Shelter Plus Care program, enacted as part of the National Affordable Housing Act of 1990, serves this population. Shelter Plus Care will provide rental assistance primarily to homeless persons who are seriously mentally ill; have chronic problems with alcohol, other drugs, or both; or have Acquired Immune Deficiency Syndrome or related diseases. The program provides housing assistance in conjunction with services, to leverage the appropriate coordination of resources and treatment for this most needy group. An important component of this program is an outreach effort to seek out and attempt to serve those homeless who have not been served previously.

The program will have three separate housing-assistance components to provide communities with flexibility in providing housing to these homeless individuals: 5-year rental assistance similar to housing certificates; assistance under the current Section 8 Single Room Occupancy Moderate Rehabilitation program; and 5-year assistance in leased or privately owned homes under the Section 202 program. The HUD-funded rental assistance must be provided in concert with supportive services funded from other Federal, State, and local sources.

The program was authorized to provide $764 million over FYs 1991 and 1992, with $382 million to come from HUD funds for housing and an equal amount from matching funds for supportive services. Despite these authorizations, Congress did not appropriate any funds for FY 1991 and only provided $110.5 million in housing funds for FY 1992. Thus, including matching funds, total resources for Shelter Plus Care for the 2-year period were only $221 million.

Other Efforts To Link Housing and Services

Interagency Agreements

A number of interagency agreements are currently being forged to link the housing and services programs of HUD and other Federal agencies involved in homeless assistance. Secretary Kemp and Secretary Sullivan have signed a Memorandum of Understanding (MOU) that commits both Departments to develop and implement cooperative efforts to help low-income families and individuals to move toward economic independence and self-reliance. Efforts focus on welfare families in public and assisted housing, homeless families with children, and seriously mentally ill homeless persons—targets consistent with the goals and priorities set by the Administration. The initiative, known as Partnerships in Self-Reliance, integrates HUD and HHS assistance, and will lead to joint policies and research programs to assist the target populations. One result of this new cooperation is that approximately $16.8 million in 3-year grants by HHS's National Institute of Mental Health for McKinney Act research demonstration projects focused on the mentally ill homeless population will be coordinated with $10 million in HUD housing assistance.

Through the MOU, HHS and HUD have also increased information sharing, and initiated more coordinated program and policy development, grant application solicitation and review, and staff training. For example, under the McKinney Act, HHS is implementing the new Project to Assist the Transition from Homelessness (PATH), to assist homeless and at-risk persons who are either severely mentally ill or mentally ill with chronic alcohol or other drug problems. HUD and HHS will work to coordinate housing assistance provided through HUD's new Shelter Plus Care program with the PATH efforts.

In addition to the working group, a HUD/HHS Program Managers Task Force has been established. This group, consisting of Federal managers administering the various McKinney Act programs, meets to address issues needing interagency coordination, such as the streamlining of program regulations, coordinating grant announcements, and simplifying reporting requirements, certifications, and eligibility criteria.

Another Memorandum of Understanding signed by Secretary Kemp and former Labor Secretary Elizabeth Dole will result in the joint undertaking of a housing and job training initiative. The Department of Labor has funded 63 job training projects for the homeless under the McKinney Act. Evaluation data show that 50 percent of participants were placed in jobs, and 40 percent were still in the jobs 13 weeks later. The new initiative will build on this successful experience to provide a comprehensive set of locally designed training, support, and housing services responsive to the needs of the homeless. As an important innovative feature, the services will include as integral program components commitments for employment and housing for those who successfully complete the program. The MOU also contains other provisions to promote linkages between job training and housing programs that will contribute to addressing the needs of the homeless and preventing homelessness.

Public/Private Partnerships

The building of public/private partnerships is also a pillar of the Administration's efforts on behalf of the homeless. An excellent example is a joint initiative of HUD and the Robert Wood Johnson Foundation, a pioneer in providing health care to the homeless, to help especially troubled homeless families. This new partnership, The Homeless Families Program, will provide dysfunctional families with appropriately designed health care and other supporting services, together with suitable housing. Roughly one-third of homeless mothers suffer from some psychiatric impairment. One in five is a substance abuser. Their children are usually not immunized against diseases and they suffer from high rates of childhood illnesses and chronic disorders, such as asthma and anemia. A significant number of young homeless children—withheld from Head Start and school programs in which they would otherwise participate—are at risk of long-term developmental impediments. To address these problems, the Robert Wood Johnson Foundation has made grants totaling $4.8 million to nine cities. The grants enable cities to design and implement systems of comprehensive support, tied to suitable permanent housing. In addition, $38 million in HUD Section 8 certificates has been made available to fund this housing.

Transportation Center Outreach Initiative

The Department of Transportation is heading an effort to develop a new demonstration project that will reach out to homeless persons at airports and bus, train, and subway stations, and connect them with available services and benefits. Since many of the non-service-using homeless use transportation facilities as temporary or even permanent places to sleep or stay, this initiative should provide an effective means of reaching more of the hard-to-engage "street homeless." By connecting these homeless persons to services and assistance available at other sites, this initiative should also help to reduce the significant costs to the transportation industry (primarily in increased maintenance and security) caused by homeless persons' use of transportation facilities for shelter. HUD, Department of Transportation, and other agencies are jointly funding the effort.

VA's Comprehensive Homeless Service Centers

As part of its evolving system of care and prevention for homeless veterans, the Department of Veterans Affairs (VA) has established its first Comprehensive Homeless Service Center at its Medical Center in Dallas, Texas. This pilot project coordinates a full spectrum of otherwise separate services for homeless veterans in the Dallas area, including assistance from the VA's special homelessness programs and mainstream programs, from other Federal homeless assistance and mainstream programs, and from a variety of local public and private sources. The VA hopes that its Dallas Comprehensive Homeless Service Center will serve as a model for other efforts to provide homeless persons with the comprehensive, coordinated services necessary to create lasting solutions.

Interagency Council on the Homeless

Much of the effort to address the comprehensive needs of the homeless is being spearheaded by the Interagency Council on the Homeless. The Council was created by the McKinney Act to provide a coordinated focus to Federal homeless assistance activities. The Council is composed of the heads of 13 Cabinet agencies (Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, Transportation, Veterans Affairs, and the Office of Management and Budget) and the heads of 4 independent agencies (ACTION, Federal Emergency Management Agency, General Services Administration, and the U.S. Postal Service).

The Council was established to review, monitor, evaluate, and recommend improvements in Federal programs to assist the homeless; collect and disseminate information relating to the homeless; reduce duplication of efforts among Federal agencies; and provide professional and technical assistance to States, local governments, and private or nonprofit organizations serving the homeless.

Secretary Kemp is the Council's Chairman and Secretary Sullivan is the Vice Chairman. During 1989 and 1990, the Council's activities have intensified to reflect the Administration's commitment to help end homelessness. Secretary Kemp has designated staff to serve as full-time homeless coordinators in each of the 10 Federal regions. The Council also sponsors regional workshops and special meetings, and Council staff visit program sites to monitor and evaluate homeless activities at the State and local levels. Through its publications, the Council tries to ensure that timely information on program funding, applications, and deadlines and on exemplary programs reaches those who need it.

The Council has been responsible for coordinating the development of the first comprehensive Federal plan to help end the tragedy of homelessness. This plan is based on an increased understanding of who the homeless are, what their problems are, and the nature of mistaken policies of the past. The 17 Federal agencies that have programs to serve the homeless have recently approved the goals and objectives of a plan for coordinated and comprehensive action to help eliminate homelessness. This plan has eight objectives:

- Needs must be defined. Clear descriptions must be provided of the needs that typically must be met for members of each subgroup of the homeless to move out of homelessness.

- Coordination must be improved. Coordination of Federal, State, local, and private efforts can be improved through comprehensive Federal, State, and local strategies for providing assistance to the homeless. These strategies must reach beyond emergency measures and include longer term mechanisms designed to address the fundamental problems that lead to homelessness.

- Participation must be increased in mainstream programs that, although not targeted to the homeless, provide income support, social services, health care, education, employment, and housing.

- Targeted programs must be improved. The McKinney Act and other programs targeted to the homeless should be reviewed to identify changes that can be made to improve their effectiveness in addressing the multiple, diverse needs of the various subgroups of homeless people.

- The availability of support services in combination with housing must be increased. Actions should be taken to increase the availability of necessary support services, and to ensure that these services are provided in combination with appropriate housing.

- Access to permanent housing must be improved. Actions should be taken to improve homeless families' and individuals' access to decent, affordable permanent housing.

- Strategies must be developed for preventing homelessness. Methods should be improved for identifying families and individuals clearly at risk of imminent homelessness. Current policies that contribute to homelessness must be identified and rectified. New initiatives to help prevent these people from becoming homeless should be proposed.

- The knowledge of how best to address homelessness must be increased. Increased data collection and research and evaluation will help improve understanding of the needs of homeless families and individuals, how well these needs are being met, and how better to meet these needs in the future. This information should be widely disseminated to help improve policies and practices.

The Council is now working with its member agencies to develop action plans to implement these objectives.

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[1] The 1990 Census seperately enumerated the following groups: residents of emergency shelters, including hotels and motels costing less than $12 a night; shelters and group homes for runaway, neglected, and homeless children; those visible on the streets and leaving nonstructured shelters such as commercial buildings (train stations, airports, etc.) and abandoned buildings; and shelters for abused women.

[2] Anna Kondratas, "Estimates and Public Policy: The Politics of Numbers," a paper for the Federal National Mortgage Association (FNMA) Annual Housing Conference 1991. FNMA, May 1991, Washington, D.C.

[3] *The 1990 Annual Report of the Interagency Council on the Homeless.* Interagency Council on the Homeless, Washington, D.C., February 1991.

[4] M.R. Burt and B.E. Cohen, *America's Homeless—Numbers, Characteristics and Programs That Serve Them.* The Urban Institute, Washington, D.C., Report #89-3, July 1989, p. 43. (As cited in *The 1990 Annual Report of the Interagency Council on the Homeless.*)

[5] Peter Rossi, *Homelessness in America.* Social and Demographic Research Institute, University of Massachusetts, Amherst, Massachusetts, September 1989, pp. 13, 14.

[6] Peter Rossi, *Homelessness in America.* Social and Demographic Research Institute, University of Massachusetts, Amherst, Massachusetts, September 1989. (As cited in *The 1990 Annual Report of the Interagency Council on the Homeless.*)

[7] *American Housing Survey for the Chicago Metropolitan Area in 1987,* Table 4-21, Housing Costs by Selected Characteristics-Renter Occupied Units. May 1990; and *American Housing Survey for the Los Angeles-Long Beach Metropolitan Area in 1985.* Table 4-21, Housing Costs by Selected Characteristics-Renter Occupied Units. August 1989. U.S. Department of Commerce and U.S. Department of Housing and Urban Development, Washington, D.C.

[8] *Homeless Assistance Policy and Practice in the Nation's Five Largest Cities.* U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Washington, D.C., August 1989.