November 22, 1995

MEMORANDUM FOR TIM BARNICLE, LISA LYNCH
MICHAEL BARR
SHERYLL CASHIN, KUMIKI GIBSON
ELAINE KAMARCK
BRUCE KATZ, MIKE STEGMAN
BOB LITAN, STEVE REDBURN
MARK MAZUR
ELLEN SEIDMAN
MIKE SMITH, JUDY WURTZEL
PAUL WEINSTEIN

FROM: PAUL DIMOND

SUBJECT: COMMUNITY EMPOWERMENT -- NEXT STEPS

CC: LAURA TYSON, GENE SPERLING
BRUCE REED
KEN APFEL, BARRY WHITE
JEREMY BEN-AMI

Thanks for your continuing help. Our schedule for completing development of the policy options for consideration by the Principals is as follows:

- By C.O.B. Wednesday, November 29, please transmit two-page summary of the policy option(s) for which you are serving as a team leader to Paul Dimond (456-2223) and Mark Mazur (395-6809). Include whatever back-up, background or supporting material that you believe is essential as an appendix.

- In conjunction with the OMB PADs, Mark and I will meet with the designated team leaders to discuss questions and any proposed revisions on Thursday, November 30 and Friday, December 1.

- By C.O.B., Monday, December 4, we will circulate for your comments and suggestions the revised summary of the policy options along with a revised summary of the framework for considering the options and issues for discussion.

- By C.O.B., Wednesday, December 6, we will finalize the policy options and any discussion paper.

The policy options and team leader(s) for each are:

- Build on EZs/ECs -- Cashin, Gibson
- Build on CDFIs -- Barr, Weinstein
- Build on Brownfield/Port Development -- Seidman
- Home-Ownership Communities -- Katz, Litan
- End Public Housing as we know it -- Katz, Litan
- [Transform HUD. This proposal may be one option or component of a larger reinvention proposal. As a result, full development and consideration of this proposal may proceed on a different timetable.] -- Litan, Kmarck, Katz, Weinstein, and Cashin
- Joblink -- Barnicle, Lynch, Cashin
- [School-to-Work. This proposal will be considered primarily by the Youth Working Group.] -- Smith, Wurtzel
- [At-Risk Youth/EC-EZ Youth. These proposals may be considered primarily by the Youth Working Group] -- Barnicle, Cashin

Urban Policy Distribution List

NAME	Agency	Phone	Fax
Mark Mazur	NEC	5-5147	5-6809
Paul Weinstein	DPC	6-5577	6-7028
Mike Smith	DoEd	401-3389	401-3095
Judy Wurtzel	DoEd	401-3389	410-3095
Michael Barr	Treasury	622-0016	622-0073
Lisa Lynch	DOL	219-5108	219-4902
Elaine Kamarck	OVP	6-2816	6-6429
Kumiki Gibson	OVP	6-7020	6-6429
Sheryll Cashin	OVP	6-9045	6-9054
Bruce Katz	HUD	708-2713	708-2476
Bob Litan	OMB	5-3120	5-4639
Ellen Seidman	NEC	6-5359	6-2223
Tim Barnicle	DOL	219-6050	219-6827
Steve Redburn	OMB	395-4610	395-1307
Michael Stegman	HUD	708-1600	619-8000

cc's

Laura Tyson	NEC	6-5805	6-2878
Ken Aphel	OMB	5-4844	5-5730
Barry White	OMB	5-4532	5-7752
Bruce Reed	DPC	6-6515	6-5557
Gene Sperling	NEC	6-2620	6-2878
Jeremy Ben-Ami	DPC	6-5584	6-7028

[illegible]

PJW -
This is very, very good.
If you're not careful, Rubin will
hire you away from us - and
pay you more $.
This memo makes me think:
what if we required that all or most
of the social service $ we give the
Zones must be used to create jobs
in those services for Zone Residents:
e.g., child care workers, health aides, etc.
This would be highly popular with the
communities served - and might turn
zones into job creators after all.
I would be less troubled about sending
service $ if I knew it would create
jobs instead of
just creating
service providers
—BR

THE WHITE HOUSE

WASHINGTON

October 28, 1993

MEMORANDUM FOR BOB RUBIN

FROM: Paul Weinstein

SUBJECT: Community Empowerment Objectives

Paul and Sheryll's memo does an excellent job of outlining goals for Empowerment Zones and Enterprise Communities. I agree that economic development and economic opportunity must be the primary focus for the zones. The following underscores that emphasis.

The Building Blocks -- Jobs

The core objective for empowerment zones and enterprise communities must be the creation of jobs. If the zones and communities do not create jobs, the program will be billed as a failure -- it's that simple. If we can create a job base in these distressed communities, then we can build outwards and develop the self-sustaining institutions that provide vital social services like child care facilities, health clinics, better schools.

With our limited resources, we can't afford to focus on the outcomes of the problems in our inner cities and distressed rural communities, we must focus on the causes. And the number one problem, in my view, is the lack of jobs and economic opportunity.

The major tax incentive for the zones is the Wage Tax Credit (WTC). The Credit should be effective in attracting labor intensive industries to the zones. The one problem with the WTC is that it is very costly to replicate. Therefore, we will need to study carefully which of the other, less expensive tax incentives, also have a positive job effect.

The Ultimate Test Of Reinvention -- Federal, State, County, City, and Community Coordination and Cooperation

I think Carol Rasco is right when she describes Empowerment Zones and Enterprise Communities as the greatest test of reinventing government. For this program to be successful, at least four layers of government and the actual communities themselves are going to have to actually communicate with each other. Nothing could seem more simple yet so hard. I've always felt that one of reasons governments in the past allocated more and more money for programs -- even if they were unsuccessful -- is because cooperation requires a lot more effort than appropriation.

Intergovernmental cooperation, if we can get it to work in the zones, is something that can serve as a model for other communities. Two ways to promote cooperation is waiver authority -- to help communities cut through the red tape and provide flexibility -- and the strategic plan, which can serve as a compact between all the governmental entities involved.

Stakeholding -- Making Capital Available To The Inner City And Rural America

Past attempts to rebuild our inner cities and distressed rural areas have failed for several reasons, two major ones being (1) the disconnect between government assistance programs and the private sector and (2) the failure to ensure that residents would have a financial stake in the economic future of their communities.

The President has correctly argued that government programs should spur the private sector in distressed communities, and that we need to create entrepreneurship opportunities for the residents. Our capital incentives programs -- reform of the Community Reinvestment Act (CRA), passage of the Community Development Financial Institutions (CDFI) bill, SBA's One-Stop Capital Shop, SBA Microenterprise Loan Program, and the SSBIC/ Bumpers tax break -- will play a more significant role in the revitalization of these communities than the Zones themselves, because they will provide residents with the opportunity to own their own businesses and homes. In a recent interview Jack Kemp stated that Democrats have traditionally focused on the "safety net" while Republicans have put their efforts into the "ladder of economic opportunity." Well, trickle down was hardly a ladder. But Kemp's point that government should work in concert with the private sector to promote opportunity is fundamental (it's too bad he never heeded his own advice).

Security

Of course you can't attract outside business and capital, and retain human capital if your streets aren't safe, if the education system is failing, if you work all week and your income still falls below the poverty line. That is why several other Presidential initiatives, the crime bill, Headstart and Family Preservation, the EITC, health care reform, and welfare reform are integral components of any community empowerment strategy.

cc: Carol Rasco
Bruce Reed

Paul D. —

We need to do this for welfare reform — job creation, small bus. development, avail. funding streams, etc.

—BR

THE WHITE HOUSE

WASHINGTON

October 5, 1993

MEMORANDUM FOR: THE VICE PRESIDENT
CAROL RASCO
ROBERT RUBIN

FROM: PAUL DIMOND
KUMIKI GIBSON
PAUL WEINSTEIN
SHERYLL CASHIN

SUBJECT: COMMUNITY EMPOWERMENT: RESOURCES AND STRATEGY

This memorandum summarizes the federal resources -- financial and otherwise -- that are currently available to support empowerment zones and enterprise communities. It also suggests how the empowerment zones implementation effort may inform the development of the broader community empowerment strategy.

I. Summary of Available Federal Resources

Designated zones and communities will be supported primarily through four sources:

- Omnibus Budget Reconciliation Act of 1993 (Title XX grants and tax incentives)
- Additional agency contributions and assistance (to be finalized in October by agencies and interagency issue groups)
- Capital investments for business development through SBA's "One-Stop Capital Shops"
- Capital investments for housing and community development through Fannie Mae, Freddie Mac, FHA, and HUD/USDA programs

Each of these sources may provide up to $3.0 billion in resources over 5 years.

The following outline sets forth in more detail the federal resources available specifically to the 9 designated empowerment zones and 95 enterprise communities.

9 EMPOWERMENT ZONES ("EZs")

Investments

- Title XX Block Grants -- Each designated urban EZ will receive two consecutive $50 million grants, and each designated rural EZ will receive two consecutive $20 million grants. The scope of potential uses for these funds is currently being determined.
- Coordination and Flexibility with Existing Funds -- Through the Community Enterprise Board and interagency coordinating teams in each designated EZ, we will be able to provide designated EZs with strong interagency coordination and flexibility in existing programs, including some sort of waiver process.
- Eligibility for Participation in a Range of Additional Federal Investments and Assistance -- Each designated EZ will be eligible to participate in a range of additional federal programs, which we are in the process of identifying.
- SBA's One-Stop Capital Shops -- Each designated EZ will receive targeted technical assistance, and approximately $400 million in small business lending and investments will be distributed through each of the 9 shops, subject to OMB and WH approval and a commitment to seek an additional $50 million over five years above the current budget baseline. While these shops would be located in the 9 zones, they also could serve as regional or national centers for investment in business development in distressed areas generally.
- Community Development Financial Institutions -- The President's bill, which is pending in Congress, gives priority consideration for matching grant assistance to applicants from EZs to start or expand a CDFI. In addition, we are exploring ways to create a complementary fund with investment from major national private foundations.

- Fannie Mae -- Fannie Mae may be able to provide special coordination and possibly as much as $1 billion in investment in housing and multi-family mortgages for each designated EZ. (We anticipate finalizing these agreements in October).
- Freddie Mac -- We are currently exploring with Freddie Mac the possibility of it providing EZs with special coordination and targeted investing in housing mortgages.

<u>Employment Tax Incentives</u>

- Employment and Training Credits of up to $3000 per year per employee for the cost of employing and training zone residents. These credits, which are available only to qualified businesses located in the EZs, will reduce the cost of doing business in the zone and assure that the zone residents benefit directly from the credits.

<u>Capital Incentives</u>

- Increased Section 179 Property Expensing -- Qualified businesses located in EZs will be eligible for up to $20,000 in increased expending (in addition to the $17,500 in 179 expending currently available).
- Tax-Exempt Private Facility Bonds for Investments in Land and Tangible Property -- Each business (per zone) will be eligible for up to $3 million (subject to state volume cap).
- Expansion of the Low Income Housing Tax Credit to permit use of HOME funds in LIHTC projects.
- Tax Credit for Contributions to certain Community Development Corporations -- Individuals and companies will receive up to a 50% credit for up to $2 million in cash contributions to one of 20 CDCs designated by HUD (subject to a commitment by HUD to include CDC designation-competition in the RFP for EZs and ECs).
- Incentives for Investments in SSBICs -- Capital gain from sale of publicly traded securities can be deferred by reinvesting in a Specialized Small Business Investment Company (SSBIC); 50% "Bumpers" capital gains exclusion also applies to investments in corporate SSBICs. (These incentives are not limited to SSBICs located in zones and communities).

95 Enterprise Communities ("ECs)

Investments

- Title XX Block Grants -- Each designated EC will receive one $2.95 million grant.
- Coordination and Flexibility with Existing Funds
- Eligibility for Participation in a Range of Additional Federal Investments
- Eligible for SBA One-Stop Capital Shop Assistance
- Eligible for CDFI Bill Assistance
- Fannie Mae Coordination and Funds
- Freddie Mac Coordination and Funds

Employment Tax Incentives: None

Capital Incentives

- Tax-Exempt Private Facility Bonds
- Expansion of the Low Income Housing Tax Credit
- Tax Credit for Contributions to Certain CDCs
- Incentives for Investments in SSBICs

II. Other Potential Federal Commitments

As we discussed in our last meeting, there are other potential sources of federal funding and technical assistance for EZs and ECs. For example, Fannie Mae is prepared to enter into a cooperative working agreement with the designated EZs to facilitate leveraging of public and private resources and to help the communities assess and meet their housing needs.

Similar commitments might be sought from:

- Large foundations and non-profit organizations
- Other GSEs (HUD will be talking to the Federal Home Loan Banks and the state housing finance agencies)
- "Social investment" mutual funds

- Bank and/or corporate "empowerment investment and assistance" consortia

III. Summary of Activities That Could Be Sponsored or Induced

A. Capacity Building for Community Development

A portion of Title XX and CDBG funds might be used as "seed money" to start or expand permanent, development-related institutions that would survive the EZ and EC status. Applicants can use the challenge grant process to attract private sector commitments that match or exceed their own contributions for such efforts.

The following are examples of the types of self-sustaining institutions that could play a significant role in fostering economic revitalization and expanding economic opportunities for zone residents. In particular, these community-based institutions provide a necessary bridge between low- and moderate-income residents and mainstream credit and investment markets:

- Community Development Banks
- Micro-enterprise Loan Funds
- Community Development/Revolving Loan Funds
- Community Development Cooperatives and Credit Unions
- Technical Assistance Agencies for small business and housing borrowers
- Community Development Corporations
- Small Business Investment Companies (that provide venture capital and equity investment)

Title XX and CDBG funds might also be used for training and wages for technical assistance provided by such institutions. Communities could also use SBA One-Stop Capital Shop resources (and CDFI funds once the CDFI bill is passed) to attract local private sector commitments. (The SBA capital shops proposal and the CDFI bill are summarized in your Community Empowerment Briefing Book.)

B. Capacity Building for Human Development

A portion of Title XX funds and possibly existing federal funds received by the communities could be used for a range of human development activities. The following are examples provided in the OBRA legislation for uses of the Title XX funds:

- Health-Prevention: drug and alcohol prevention and treatment programs that offer services to pregnant women, mothers and children;

- Job Training: training and employing disadvantaged adults and youth in construction and rehabilitation of affordable housing, public infrastructure and community facilities;

- Business Training: training in entrepreneurism and self-employment;

- Family Preservation: after-school programs designed to promote and protect families and children;

- Economic Development Training: services designed to promote community and economic development, such as skills training, job counseling, transportation services, housing, counseling, financial management and business counseling;

- Homeless Families Prevention: emergency shelter for disadvantaged families;

- Home Ownership and Education Counseling: programs that promote home ownership, education or other routes to economic independence for low income families and individuals.

We are currently exploring with HHS whether the Title XX funds can be used to invest in or start institutions that provide such services, so that we can help the communities build permanent, community-based service delivery capacity in addition to providing critical services.

We can also use the selection criteria to encourage local communities to create or expand volunteer programs and public-private partnerships to connect residents of distressed areas with the resources and opportunities of the entire local region.

Finally, we can use the selection criteria to induce communities to pay special attention to such issues as:

- Public Safety: This must be a bedrock foundation for any application. Apart from technical assistance provided by DOJ, the Office of National Drug Control Policy, and other federal agencies, we must ask the applicants to make provision for public safety in cooperation with the local community and private sector.

- Local Labor Market Job Networks: We must ask the applicants to create area-wide networks or consortia of employers to provide residents of zones and communities with real access to jobs throughout the local labor market.

- Building on Existing Assets: Many distressed communities are in close proximity to major research universities, hospital complexes, and employment centers. The eligibility and selection criteria should be designed to encourage communities to build on such existing assets in order to transform their zones and communities into contributing, integral parts of their regional economies.

IV. Relationship Between Implementation Efforts and Broader Community Empowerment Agenda

The process of implementing the empowerment zones legislation should inform the development of the broader community empowerment agenda in several critical ways:

- Defining the Scope and Nature of the Problem in Distressed Areas: Many of the responses of the Cabinet Secretaries to the August 10 statement of "Community Empowerment Principles" indicated that we need to take a step back to define the problems faced in distressed communities with care if we are to have a meaningful impact. Our empowerment zones implementation workplan includes several near-term opportunities for feedback from communities and community activists on the nature of the problems they encounter in pursuing human, community and economic development strategies in distressed areas: (1) internal brainstorming sessions with outside experts; (2) informal consultations with communities by HUD and USDA on the content of the proposed RFP; (3) regional technical assistance workshops with applicant communities after the RFP is issued. We should make every effort to document and synthesize the feedback we receive during these efforts.

- Identifying Points of Leverage to Empower and Transform Communities and their Residents: The internal brainstorming sessions and technical assistance workshops, as well as the actual strategic plans that communities submit, should provide a wealth of information about what communities are actually doing to leverage their limited federal and local governmental dollars and change the way they approach development. We also should make every effort to begin systematically collecting <u>and disseminating</u> information about successful models for leveraging and public-private partnerships. Ideally, the Community Enterprise Board should serve as a clearinghouse for such information not only for Ezs and ECs but also for all of America's communities.

- Refining Empowerment Principles to Guide Policy Choices: Once we begin to define the nature of the problems faced in distressed communities, we will be better equipped to refine the draft empowerment principles. Although there was general agreement with the thrust of the empowerment principles, there was also substantial concern that the principles were not sufficiently detailed to guide actual policy choices. We are now in the process of working with HUD and others to refine the principles based upon what we learn about the nature of the problem and the points of leverage for transforming communities.

cc: Jack Quinn
Elaine Kamarck
Gene Sperling
Bruce Reed

use community empowerment to show you're a New Dem and bridge divisions
Responsib.

File:
Comm. Empower.

June 9, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING

SUBJECT: COMMUNITY EMPOWERMENT AGENDA

This memorandum presents four themes that the DPC-NEC Interagency Task force, with the leadership of Secretary Cisneros, has developed for a community empowerment agenda: economic responsibility, community responsibility, family responsibility, and individual responsibility. We believe these themes could be used as a framework for future community empowerment initiatives and as a guide for agencies as they develop, manage and redirect relevant programs. The memorandum outlines the process by which we reached agreement on these themes and recommends that you agree to a one-hour meeting with Secretary Cisneros and senior White House staff to discuss and mold these themes.

I. BACKGROUND

A. Secretary Cisneros' Presentation to White House.

Following your approval in April of the Empowerment Zones, CRA Regulatory Reform and Community Development Banking initiatives, Secretary Cisneros made a presentation to senior White House Officials concerning his vision and themes for a comprehensive community empowerment agenda. The group included Mack McClarty, Bob Rubin, George Stephanopolos, DPC and NEC Deputy Assistants, and senior policy representatives from the Vice-President's Office, Communications, and OMB.

Secretary Cisneros focused his presentation on policy directions for community empowerment. Based on his participation in the Interagency Task Force, his extensive review of HUD programs and problems with staff and consumers, and his own policy review of HUD priorities in a series of seminars and retreats, the Secretary offered three basic themes and related action programs:

- **A Commitment to Community Values** -- supporting community solutions with bottom-up rather than top-down strategies; encouraging comprehensive solutions to local problems; making federal programs more flexible and responsive to community needs; encouraging economic diversity in communities; rebuilding the community economic base.

- **A Commitment to Economic Lift** -- making work work; linking education, training and employment; making housing a platform for economic opportunity; rebuilding the Metropolitan Economic Base.

- **A Commitment to Confront Racism and Destructive Behaviors** -- reducing spatial separation by race and income; balancing rights and responsibilities; giving every child a fair chance; restoring sanity to America's streets.

Secretary Cisneros closed his remarks with a strong plea for "the imperative for cross-cabinet coordination." He expressed his appreciation for the DPC-NEC interagency process as a means of developing meaningful, coordinated solutions to the real problems in distressed areas. And he has continued to underscore his view that a White House-led, interagency approach to community empowerment should continue not only in the formulation of policy but also in the management and operation of relevant federal programs. The interagency Enterprise Board that will be created under the Empowerment Zone initiative will be an important experiment in interagency program management. The Secretary urged the White House to continue to provide the leadership to enable such a process of interagency coordination to continue and to take root in the way the federal government does business.

The entire audience was impressed by the depth and direction of the Secretary's remarks. At the Secretary's suggestion, all encouraged the Secretary to work with the DPC-NEC Working Group on Community Empowerment in order to develop the agenda and to determine how best to ensure essential interagency cooperation.

B. Secretary Cisneros' Presentations to the DPC-NEC Interagency Working Group on Community Empowerment.

The DPC-NEC Working Group convened senior policy officials from each of the agencies to consider the Secretary's proposals. In addition to the key DPC-NEC staff, participants included David Ellwood and Peter Edelman from HHS, Bob Nash from DoAg, Larry Katz and Doug Ross from DOL, Alicia Munnell and Maurice Foley from Treasury, Larry Parks from Commerce, Secretary Cisneros, Andrew Cuomo and Bruce Katz from HUD, Charlotte Hayes from the Vice-President's Office, and David Kusnet from Speechwriting. Over the course of several weeks we had two extensive meetings and exchanged views directly and through written comments to refine the themes.

The Working group agreed that it was important to have unifying themes that would articulate a coherent vision for what community empowerment means for the Clinton Administration and would inform each agency's policymaking processes and it priorities in reviewing and redirecting existing programs. It was agreed that the themes would have to be consistent with the "New Democrat" direction of the campaign. The group also concurred in Secretary Cisneros' view that institutionalizing interagency cooperation would be critical to developing meaningful solutions to the problems of distressed rural and urban communities.

At the suggestion of the Vice-President and David Ellwood from HHS, and with the enthusiastic support of Secretary Cisneros, the Working Group agreed that support for family should be emphasized as a fundamental value.

Some members of the group, especially Larry Parks of Commerce, expressed concern that economic growth -- the idea that the federal government should be a catalyst for private-sector job creation in local communities -- was not sufficiently articulated by the Secretary's community values theme.

To meet these and other concerns while articulating a New Democratic message, preserving Secretary Cisneros' core direction, and retaining notions of responsibility, we embraced four basic values:

- **Economic Responsibility** -- providing incentives for job creation and economic opportunity; making work pay; encouraging public-private partnerships that build upon local economic generators.

- **Community Responsibility** -- encouraging a renewed spirit of community where bonds expand beyond mere self-interest and cross racial, ethnic and geographic lines; encouraging comprehensive, community based, bottom-up solutions; making the federal government flexible and responsive to unique local needs.

- **Family Responsibility** -- easing burdens on parenting; supporting and not penalizing marriage or families.

- **Individual Responsibility** -- renewing the social contract of rights and responsibilities; combating racism and other destructive behavior; rewarding learning, work and commitment to community.

We have suggested above some of the topics that might fit under each theme. However, these ideas are not exhaustive.

C. Secretary Cisneros' Draft Speech

Finally, Secretary Cisneros took the lead in drafting a speech that presents these basic values and suggests directives you might give for future interagency cooperation and the FY 1995 Budget Review.

The Working Group, including Secretary Cisneros, believes the draft is a good beginning but may appear too negative because it does not address the other half of the new covenant -- opportunity.

II. RECOMMENDATION

We believe that the four themes presented above provide the basis for a message on Community Empowerment that will resonate with all Americans. These themes could also guide an interagency effort to review and redirect existing federal priorities and programs, which could take place during the FY 1995 Budget Review.

In order to develop these four themes into such a powerful message, we recommend that you first meet with Secretary Cisneros and a small group of White House Staff for a one-hour meeting. We recommend that the discussion with the Secretary address three questions:

- How well do the four basic themes capture the message of the New Direction set in your Economic Plan and its main initiatives?

- Do they provide a good foundation for speaking as a New Democratic President to the American people?

- How well would they work as a guide for shaping federal policy and coordination among the Agencies and with the White House?

In preparation for this meeting, we will work with Secretary Cisneros and David Kusnet to prepare a brief set of talking points that seeks to capture the full reach of these themes with respect to each of the three questions. Based on the results of the discussion at the meeting, we can determine what next steps make sense.

III. DECISION

___ Approve meeting to discuss Community Empowerment themes

___ Approve meeting as amended:

___ Reject

___ Discuss Further

URBAN TASK FORCE MEETING (3/2/93)

NAME	AGENCY	PHONE	FAX
Keith Boykin	Media	x7151	x
Paul Carey	Legislative Affrs	x6782	x6881
Paul Diamond	NEC	x7604	x2223
Dave Dreyer	Communications	x7151	
Tom Epstein	Political Affrs	x6257	x7929
Mary Ellen Glynn	State	647-8843	x5837
Marcia Hale	Scheduling	x2823	
Charlotte Hayes	VP	x6277	x6321
Kim Hopper	Media	x7150	x6409
Arthur Jones	Press	x2100	
Julia Moffett	Comm/Planning	x7151	
Regina Montoya	Intergovnmental	x7060	
DeeDee Myers	Press	x2673	
Andre Oliver	Dep. Chief Staff	x2533	x1121
Jonathan Prince	Comm/Planning	x7151	x6427
Bruce Reed	Domestic Policy	x6515	x7739
Ken Ryder	OMB	395-4516	x6889
Ken Schwartz	OMB	395-4892	x7234
Ricki Seidman	Comm/Everything	x2520	x6423
Kim Tilley	Comm/Research	x7845	x2239
Barry Toiv	OMB	x3080	x7298
Alice Travis	DNC	863-8024	x8081
Christine Varney	Cabinet	x6280	
Ann Walker	Comm/Research	x7845	x2239
Jeff Watson	Intergovernmental	x2896	x2889
Maggie Williams	First Lady	x6266	x6244

M E M O R A N D U M

TO: DDreyer, BReed

FROM: AWalker

DATE: March 6, 1993

RE: Urban Task Force

cc: KTilley

Following is an outline on how we might move forward on the urban agenda issues. Please review and let's discuss delegation of tasks and next steps. If there are areas that you know others are currently working on or have already produced documents, please inform us so we avoid replication of work.

OVERVIEW

With the trial of the L.A. police officers underway, the R. Deny trial beginning on April 12th (postponed as of yesterday), and the anniversary of the '92 L.A. riots approaching (April 28), there is potential for problems in urban areas -- particularly L.A.

The anticipated timeline on the trials is as follows:

King Trial:
-Expected to last 6 to 8 weeks (jury going out the middle to end of April)

Deny Trial:
-Postponed from March 15 to April 12th
-Expected to last approximately 4 weeks (jury going out around the end of the middle of May)

As we cannot predict the time necessary for the juries to deliver a verdict in either case, it is very possible with this scenario that the verdicts could be announced around the same time.

(We will have information on the Harold Ford case on Monday.)

OBJECTIVE

- Ensure calm, safety and peace in the nations' urban areas following the announcement of the verdicts (and through the summer.)

STRATEGY

(These recommendations should be reviewed for L.A. as well as other "at-risk" urban areas around the country.)

- Diffuse tensions by focusing on the attention on programs created to boost local economies, increase employment (focusing on youth) and provide opportunities.

  -apprenticeship programs
  -education assistance
  -housing improvement
  -enterprise zones
  -community banking/lending

- Develop pro-active community involvement initiatives and dialogue by creating link/relationship between community "influencers" and national spokespeople

- Create unified "contingency plan" that pulls together all agencies (federal, state and local) thus ensuring that all bases are covered and roles and responsibilities are clearly defined.

TACTICS

- Identify the impact of specific stimulus programs and increased funding for programs that will benefit L.A.

- Create fire media wall of aspects of the economic program that mean tangible and measurable differences (e.g. # of new jobs this summer, increase in funding for community based programs such as xxx, etc.)

- Use community spokespeople and influencers to talk about expected economic improvements (e.g. former gang leaders, youth activists, musicians, actors, sports figures)

- Send national figures into S. Central L.A. <u>before</u> there is a problem. A major complaint was that Bush (and other politicians) never came to the area before the riots. Let the President go to South Central L.A. to talk about what his economic plan will do to help.

- o Identify national spokespeople to comment on the verdicts -- and limit all comments from the administration to these pre-identified people. This will avoid mixed messages (Bush/Kemp) and potential for inciteful comments. Messages and spokespeople will be given talking points, developed by WH Communications in conjunction with the Justice Department.

- o Closely track timeline and progress of the trials

This is just a draft of a few ideas. The program can be developed into a more comprehensive document for use by the working group.

It would be helpful if Kim Tilley and I could sit down with you to discuss how you see this evolving and what you want us to move ahead on. Let us know conventient time.

Bruce

F.Y.I.

— Paul

THE SECRETARY OF COMMERCE

WASHINGTON, D.C. 20230

February 24, 1993

To: Robert E. Rubin
Assistant Secretary to the President
on Economic Policy

From: Ronald H. Brown

Re: Commerce and Community Banks

Introduction

As you and I have discussed, I would be very excited if the Department of Commerce were given the opportunity to lead the President's effort for the creation of community banks. Let me explain why. There are three critical factors in deciding which Department would best assure a successful Community Development Bank initiative. First, the Department should have expertise in providing management and technical assistance to businesses. This expertise will enable the Department to effectively evaluate and monitor the activities of the CDBs, as well as provide resources to the entrepreneurs served by the CDBs. Second, the Department should be free to drive the new initiative without conflicting considerations from existing constituencies. Currently, some federally regulated financial institutions view the CDBs as potentially taking away their business while others contend that the CDBs will eliminate their need to reinvest in lower income communities. Third, the Department should have the goal of expanding economic opportunity for all Americans as a primary mission. That is, the Department needs to view the success of the Community Development Bank initiative as a primary goal, not as an ancillary program. The Commerce Department is best equipped to meet these objectives.

Discussion

<u>Management and Technical Assistance</u>

Community bank experts, commercial lenders, activists and business leaders all agree that in order for Community Development Banks ("CDBs") to flourish they will need both capital and technical assistance. Commerce currently is the repository of technical assistance for business in the federal government. This expertise should be used as a building block for the community development banks. Several of the agencies at Commerce provide a variety of technical and management assistance to start-up companies, medium sized companies and large institutions in both domestic and foreign markets.

1. **Economic Development Administration** provides technical assistance for urban and rural development through University Centers that promote and demonstrate innovative methods of economic development for states and localities. The agency also provides technical assistance through trade adjustment centers which help firms qualify for and receive assistance in adjusting to import competition.

2. **Minority Business Development Agency** provides technical assistance to start-up and existing minority businesses to facilitate business growth in minority communities. The agency has a network of 103 minority business centers throughout the country where minority entrepreneurs can obtain assistance in evaluating the feasibility of establishing a business, developing business plans, identifying capital sources, and receiving information on entering into or expanding operations into growth industries.

3. **Technology Administration** has already fashioned a national reputation with its establishment of manufacturing technology centers and manufacturing extension programs. These programs assist small and medium sized manufacturers by suggesting improvements in the use of manufacturing technology, integrating new technology into older systems, advising on types of job training, providing job training, coordinating and disseminating manufacturing and business information scattered throughout the government, and facilitating business networking by establishing an electronic commerce exchange between businesses.

4. **International Trade Administration** currently provides technical assistance to small, mid-size and large companies seeking to enter or expand exports in foreign markets. There is currently a network of about 200 domestic and foreign offices which provide business counseling to American exporters. Counseling includes providing information on export financing, counseling, establishing trade events, creating business lead lists, and establishing databases on discs with information on particular markets.

Structure of the Banks -- A Challenge to the Status Quo

Credit market imperfections that community development banks are intended to redress require new innovative approaches. Existing banking oversight agencies are likely to tinker with the existing system rather than apply new tools to combat an old problem. Commerce has expertise in addressing the effects of market

imperfection. As the above descriptions indicate, this expertise has thus far been limited to technical assistance. The Community Development Bank initiative allows Commerce to apply its expertise in the capital area as well.

The Department believes the banks should ensure maximum private sector discipline while maintaining a clearly stated public objective. To this end, the federal charter for the banks should provide for the capitalization of the banks, prescribe the authority the banks will have, and establish an agency in the Department to administer the monies and monitor the banks for actions that put the government at undue risk or violate the mission of the banks. The Department chosen should be sensitive to the special nature of the CDBs. They are intended to fulfill a specific function: that of facilitating economic empowerment through a public/private investment in communities chronically under-served by the traditional banking community.[1] I believe that we have -- and can easily supplement the necessary expertise.

Given the scarce federal resources available to meet this tremendous unmet need, the community bank program would use tools other than direct federal appropriations to facilitate the CDBs. The program would need to be empowered to disburse loans, provide loan guarantees, purchase loans, facilitate the packaging of loans for pools for sale, and generally establish creative credit enhancements which facilitate business expansion in under-served communities. The program would ensure that sufficient solvency is in place for each of the CDBs. Provisions would be made to revoke the CDBs ability to participate if fraud, abuse and mismanagement are found, and sanctions would be established. The program would

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[1] The federal government has created many specialized financial institutions, most of which operate in conjunction with the Department with expertise in the area. For instance: Fannie Mae and Freddie Mac operate as quasi-public housing finance institutions that are regulated by HUD; and the Community Credit Corporation finances food sales abroad with loan guarantees. It is housed at Agriculture. All of these entities have a line of credit with the Treasury, but are not directly regulated by the Treasury.

encourage public/private funding of the CDBs so as to best leverage federal resources. The Department should not sign off on each loan administered by the community development banks, nor establish uniform underwriting standards.

As noted above, the Department would issue rules for participation prescribing the characteristics for participation as a bank such as: economic development expertise, net worth requirement, lending track record, management abilities, technical assistance abilities, investors, and community support. Federally insured depository institutions along with non-insured institutions would be eligible

to participate provided they met criteria established and published by the Department. Joint ventures with existing federally insured banking institutions would be encouraged. The objective would be to develop and expand existing community based lenders.

So as to avoid conflicts with existing commercial banks, credit unions, savings banks, and thrifts, the CDBs may want to initially become non-depository institutions for entrepreneurs in need of pre-seed, seed, equity, debt and venture capital. Some CDBs would be eligible to provide a number of services while others with less proven track records would initially be restricted to providing a limited number of credit initiatives. The CDBs should not be lenders of last resort. They will operate as for - profit entities that generate significant interest and fee income and operate actuarially sound programs which adequately reserve against projected losses -- while serving the economic needs of oft-ignored communities.

Commerce and Economic Opportunity

I believe that the fundamental mission of the Department of Commerce is to expand economic opportunity for Americans. The CDBs will enable this Department to fulfill this goal. If CDBs are housed at Commerce, the Department would be reorganized to ensure that technical assistance and financial assistance were firmly linked together.

I would establish a new Undersecretariat for Economic Development which would contain the Assistant Secretary for Community Development Banks, the Assistant Secretary for the Economic Development Administration ("EDA"), and the Assistant Secretary for Minority Business Development ("MBDA"). The Assistant Secretariats for EDA and MBDA would provide technical assistance to the Assistant Secretariat for Community Development Banks. EDA and MBDA would be brought under this new undersecretariat because of their expertise in providing technical assistance to distressed communities in urban, rural and minority areas -- areas targeted for assistance by the CDBs. Moreover, these agencies have cooperative working relationships with the International Trade Administration and the Technology Administration -- agencies which enhance growth-oriented industries and which should be represented in communities targeted by CDBs.

Both the EDA and the MBDA have been receptive to such coordination. Moreover, each agency contends that it must ensure access to capital in order to reinvigorate the distressed communities in which they operate. Minority entrepreneurs contend that the lack of capital is the number one obstacle to the formation and expansion of minority businesses. If these businesses had access to capital, they would create job opportunities in many distressed communities and provide an empowerment vehicle in under-served areas. Similarly, EDA believes that reinvestment in many

distressed rural and urban communities will require capital to enable small businesses to develop and grow. The communities served by EDA have unacceptable unemployment and underemployment levels and are woefully under-served by the current banking system.

Conclusion

As you know, I believe strongly that CDBs should be housed at the Department of Commerce. Commerce is the only federal department with the specific mission of addressing economic development and business needs. CDBs are development entities that combine capital and technical assistance to bring jobs, economic development and a sense of hope back to many distressed urban and rural communities. Commerce currently is chartered to meet only half of that equation. That is, Commerce provides technical assistance to businesses in the technology, trade, rural, urban and minority business development areas. With the CDBs, Commerce would become a one-stop shop for business needs, and this, I believe, would help fulfill the President's desire to make the Department "power house."

DEPARTMENT OF THE TREASURY
OFFICE OF TAX LEGISLATIVE COUNSEL

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Number of pages: 7

DATE: FEB 23, 93

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Comments/Special Instructions: ATTACHED IS A DRAFT ~~OF~~ EXPLANATION OF TREASURY'S ENTERPRISE ZONE PROPOSAL. AS IT IS STILL IN DRAFT FORM, WE WOULD APPRECIATE IT IF ITS DISTRIBUTION WAS FAIRLY LIMITED. (PLEASE PROVIDE PAUL WITH A COPY. THANKS.

UNCLASSIFIED

DRAFT

ESTABLISH ENTERPRISE ZONES

Current Law

Existing Federal tax incentives generally are not targeted to benefit specific geographic areas. Although the Federal tax law contains incentives that may encourage development in economically distressed areas, the availability of the incentives is not conditioned on activity in or development of such areas.

Reasons for Change

To help economically distressed areas share in the benefits of economic growth, the Administration proposes to designate Federal enterprise zones which will benefit from targeted employment and investment tax incentives. These incentives will stimulate government and private sector revitalization of the areas.

Proposal

Designation of enterprise zones

A total of 50 enterprise zones would be designated during 1994-1998, divided between 30 urban tax enterprise zones (no fewer than half of which are to be located in cities with less than 500,000 residents), 15 rural development investment zones, and 5 Indian reservation tax enterprise zones. Up to 6 urban zones (3 large and 3 small), 3 rural zones, and 1 Indian reservation zone would be designated each year between 1994 and 1998. Any shortfall in designations of zones within any category could be carried forward to the following year, but not beyond 1998. Zone designations generally would remain in effect for 10 years.

Objective criteria. Enterprise zones would be designated only from areas nominated by State and local governments (or a governing body of an Indian reservation), and would have to meet the following objective criteria:

(1) a minimum population (at least 15,000 in large urban zones, 7,500 in small urban zones, 5,000 in rural zones, and no population minimum for Indian reservation zones);

(2) a condition of unemployment and general distress (indicated by factors such as high crime rates or designation of the area as a disaster area or high-intensity drug trafficking area under the Anti-Drug Abuse Act of 1988);

(3) a geographic area (a) consisting of not more than 3 noncontiguous areas, (b) located within not more than two States, and (c) covering no more than 20 square miles (10 square miles if an urban area with less than 500,000 residents, and 1,000 square

miles if a rural zone or an Indian reservation zone);

(4) poverty rates of at least 25 percent in each of the area's census tracts; and

(5) poverty rates of at least 30 percent in at least 90 percent of the census tracts.

The 25 percent poverty rate requirement would not apply to a tract that is not part of a central business district (as defined in the applicable Census of Retail Trade) and that has (i) a population of less than 2,000 residents if more than 75 percent of the tract is zoned for commercial use, or (ii) no population.

Course of action. In addition to these objective criteria, the local and State governments would be required to agree in writing that they will adopt (or continue to follow) a specified course of action designed to reduce burdens borne by employers in the nominated area and to improve the community for residents. A course of action would have to include certain mandatory actions with respect to a nominated area and could include additional optional measures. The mandatory actions include the following:

(1) a commitment to increase the level, or efficiency of delivery, of local public services (such as public safety protection);

(2) involvement in the program by public or private entities (e.g., community groups), including a commitment to provide jobs and job training, and technical, financial, or other assistance to employers, employees, and residents of the area;

(3) a program to ensure the necessary rehabilitation of publicly owned property;

(4) certification by the State insurance commissioner (or similar official) that basic commercial property insurance, of a type comparable to that generally in force in urban or rural areas (whichever is applicable) throughout the State, is available to businesses within the nominated area;

(5) a commitment to involve contractors owned and operated by socially and economically disadvantaged groups, in connection with activity in the zone;

(6) certain programs to encourage local financial institutions to make loans to area businesses, with emphasis on small and locally owned businesses; and

(7) special preferences for projects within the area in allocations of the State's low-income housing credit ceiling and private activity bond ceiling.

The optional components of the required course of action would include: (1) a reduction of tax rates or fees applying within the zone; (2) donations of surplus land to community organizations agreeing to operate businesses on the land; and (3) programs to encourage employers to purchase health insurance for employees on a pooled basis.

Employment incentives

The proposal contains two employment incentives: a new employer wage credit and the expansion of the targeted jobs tax credit (TJTC).

Employer wage credit. A 25 percent credit against income tax liability would be available to all employers for the first $15,000 of wages paid with respect to each employee who (1) is a zone resident and (2) performs substantially all employment services within the zone. The maximum credit per employee would be $3,750 per year. For purposes of this credit, qualified wages would include not only salary and wages (as generally defined for FUTA tax purposes), but also certain training and educational expenses paid on behalf of a qualified employee, provided that either (a) the expenses are paid to an unrelated third party and are excludable from gross income of the employee under section 127, or (b) in the case of an employee under age 19, the expenses are incurred by the employer in operating a youth training program in conjunction with local education officials. Qualified wages would not include any amounts paid to an employee who is related to the employer or who is employed for less than 90 days.

Expansion of TJTC. The TJTC would be expanded so that a person who resides in an enterprise zone is treated as a member of a targeted group for purposes of that credit. However, an employer would not be able to claim both a TJTC (including a credit for a youth apprentice) and an enterprise zone wage credit with respect to an employee's wages in the same taxable year.

Investment incentives

The proposal also contains four investment incentives. The investment incentives would be available only with respect to trade or business activities that satisfy the criteria for an "enterprise zone business." The criteria for enterprise zone businesses are designed to ensure that the activity benefiting from the tax incentives is tied closely to the enterprise zone community and include: (1) if the business is operated as a corporation or partnership, the sole trade or business is the active conduct of a business within a zone; (2) at least 80 percent of the total gross income is derived from the active conduct of the business within a zone; (3) substantially all of the use of its tangible property occurs within a zone; (4) substantially all of its intangible property is used in, and is exclusively related to, the active conduct of the business; (5) substantially all of the services performed by employees are performed within a zone; (6) at least 35 percent of the employees are residents of the zone; and (7) no more than five percent of the average of the aggregate unadjusted bases of the property owned by the business is attributable to (a) certain financial property, or (b) collectibles not held primarily for sale to customers.

Certain business activities would not be not eligible for these incentives, such as gambling facilities and liquor stores. There also would be strict limitations on the extent to which leasing activities may be part of an enterprise zone business. In addition, general loss limitation rules (e.g., the passive loss rules and the at-risk limitations) would apply to investments in enterprise zone businesses. Thus, an individual with only a passive investment in a zone business would not be able to use losses from that business to offset other income.

Increased section 179 expensing. The expensing allowance for certain depreciable business property provided under section 179 would be increased from $10,000 to $75,000 and extended to all "qualified zone property" (depreciable tangible property (including buildings) acquired from an unrelated person, the original use of which in the zone commences with the taxpayer, and substantially all of the use of which is in the zone). As under present law, the expensing allowance would be phased out for certain taxpayers with investment in depreciable business property during the taxable year above $200,000. However, for the allowance claimed with respect to qualified zone property, the phase-out rate would be 50 percent of the investment (exclusive of buildings) made by the taxpayer during the taxable year in excess of $200,000. Thus, no expensing allowance would be available for taxpayers with over $350,000 in such investments.

For purposes of computing an investment tax credit, only the property's basis in excess of the amount expensed would be taken into account.

Accelerated depreciation. An enterprise zone business would generally determine depreciation deductions with respect to qualified zone property by using the following recovery periods:

3-year property	2 years
5-year property	3 years
7-year property	4 years
10-year property	6 years
15-year property	9 years
20-year property	12 years
Nonresidential real property	22 years

For qualified zone property otherwise eligible for the permanent small business investment tax credit or the incremental investment tax credit, an enterprise zone business would be required to elect either the credit or these shortened recovery periods. If an investment tax credit is elected with respect to such property, current-law recovery periods would be used for determining depreciation deductions.

Low-income housing credit expansion. For purposes of the low-income housing credit (LIHC), enterprise zones would automatically qualify as "difficult to develop" areas, within which the eligible basis of buildings for purposes of computing the credit is 130 percent of the cost basis. Thus, for LIHC projects in enterprise zones, the credit wwould be based on 91 percent of present value instead of the regular LIHC rate of 70 percent of present value. The State credit cap would continue to apply.

Qualified enterprise zone facility bonds. A new category of exempt-facility private activity bonds would be authorized for use in any area that is eligible to be an enterprise zone, provided the area is nominated to be a zone and its eligibility is certified. These bonds would be allowed a 50 percent exclusion from the State private activity bond volume limitations. In addition, the general rule requiring banks to forego a portion of their interest expense deduction if they invest in tax-exempt bonds would not apply to these bonds.

"Qualified enterprise zone facility bonds" would be bonds 95 percent or more of the net proceeds of which are used within a certified area to provide qualified zone property for an enterprise zone business and functionally related and subordinate land. For the bonds to be tax-exempt, there would have to be actual compliance or good faith efforts to comply with the applicable requirements throughout the term of the bonds. Existing change-in-use rules would generally apply to these bonds to deny the borrower's interest deduction if there is non-qualifying use. Issues of these bonds would be subject to a $3 million limit. In addition, there would be a $3 million limit on the amount of such bonds that a principal user may be allocated in each zone and a $20 million aggregate limit. The general restriction on financing existing property is inapplicable, and the restriction on financing the acquisition of land would be a 50 percent (rather than a 25 percent) limitation.

Effects of Proposal

Enterprise zones would encourage private sector investment and job creation in economically distressed areas through selected tax incentives that reduce the costs of operating or expanding businesses in severely depressed areas. A new era of public/private partnerships is needed to help distressed cities and rural areas help themselves.

DEPARTMENT OF THE TREASURY
OFFICE OF TAX LEGISLATIVE COUNSEL

1500 Pennsylvania Avenue, N.W.
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Number of pages: 7 DATE: FEB 23, 93

TO: SHERYLL CASHIN | 456-2223 |
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UNCLASSIFIED

February 19, 1993

To: Paul Weinstein

Fr: Mike Alexander/ Jane McNeil/ USDA

Re: Secretary Espy's ideas on community investment/ empowerment initiatives

Secretary Espy has expressed his support for several initiatives designed to empower residents of distressed urban and rural communities. The common denominator to all of these strategies is that **they recognize the need for those who are locked out of the economic mainstream of our society to accumulate productive, income producing assets.** Traditional welfare approaches transfer income to the poor - but to empower people, they need more than a subsistence income, they need to accumulate assets.

Home Ownership for People Everywhere

Assets can be in many forms. For millions of Americans, their most important asset is **home ownership.** That is why Mr. Espy has supported the HOPE program to help residents of public housing become home owners. The argument is that it makes little sense for government to invest billions of dollars, year after year, in paying rent for low income people.

That enriches landlords - but does little more than ensure that low income persons have a roof. The real equity ownership that these programs produce continue to accumulate into the hands of those who already are owners. So he will look at USDA's housing assistance programs and see where they can really be modified to help low-income people accumulate housing assets.

Just as we provide billions a year in mortgage tax deductions to help working, middle, and even upper income people accumulate housing assets, our strategy should also help the neediest in our society do the same.

Another strategy for asset accumulation are **individual development accounts** (IDAs) - a sort of IRA for the poor, where government would match savings that low-income persons accumulate. The match would be from 9-1 down, depending upon the person's income, and the savings could be used for education, to start a small business, as a down payment for a home, or to boost funds for retirement.

Again, government and many private sector companies already match savings by employees for retirement. They are encouraged to accumulate assets - but our policies don't do the same for the poor.

In fact, present policies work to discourage asset accumulation among the poor. One of the key elements of Mr. Espy's welfare reform approach is to increase the "asset limitation" for welfare recipients who start small businesses, or who try to save for their children's education. Present law penalizes welfare recipients who accumulate more than $1,000 in assets for any reason. That should be reversed, and asset accumulation should be encouraged by raising the limitation to $10,000.

Two other asset development strategies supported by Mr. Espy relate more directly to **enterprise zones and community development banks.**

Enterprise zones should be a sort of social laboratory where we test these asset development strategies and other new ideas to help rebuild distressed communities. As such, they should do more than simply target tax breaks at investors who risk their capital in enterprise zones. In fact, enterprise zones have run into trouble because many wonder how we can ensure that residents of the zones are the ones who benefit from any tax breaks, as opposed to simply benefiting wealthy investors who live outside of the zones.

Of course, any investment we can entice into enterprise zones will be welcome - especially if they produce jobs for residents of those zones. But with this approach, we have an opportunity to do more.

To ensure that residents of urban and rural enterprise zones really benefit, Mr. Espy has proposed that one feature of enterprise zones is to provide enhances tax benefits for companies that share ownership with the workers through **employee stock ownership plans.** There are presently 10,000 ESOP companies in the U.S. They include some of America's best run companies. In fact, companies where workers are part owners and also share in the management decisions are among the most productive in the nation.

When workers are also owners, and have a stake in the company's profit margins, they have extra incentive to reduce waste and work to the fullest of their potential. ESOPs allow workers to accumulate **income producing assets.** Also, when workers are included in the decision making process, workers are truly **empowered and companies** usually make better decisions. Where the interests of workers and owners are congruent, there are also far less destructive labor/management disputes.

Our tax code already provides tax incentives for investing in companies through Employee Stock Ownership Plans. However, those incentives do not provide sufficient encouragement for banks or companies to finance new or expanded operations in rural and urban enterprise zones. Mr. Espy has proposed enhancing those incentives for companies that invest in enterprise zones when workers share in at least 30% ownership of the company.

For example, currently investors can exclude 50% of the interest income they receive on certain loans to an ESOP from taxable income, provided the ESOP has more than 50% ownership in the sponsoring employer.

Mr. Espy's proposal would permit any lender (including a shareholder who sells his/her stock to an ESOP) to **exclude from taxable income 100% of the interest income** received on debt incurred by an ESOP to purchase stock which is allocated to the account of employees who reside in the enterprise zone, provided the ESOP holds at least 30% of the total value of outstanding stock, or 30% of each class of stock of the sponsoring company.

There are several other tax sweeteners that will make investing in companies with ESOPs in enterprise zones more attractive to banks, mutual funds, venture capitalists, and other investors. They would not be to the exclusion of non ESOP companies. However, these ESOP incentives would simply say to investors and companies that government will assist you more if you share the ownership of productive assets (in this case stock ownership) with the workers who reside in enterprise zones.

This approach would effectively answer critics who see enterprise zones as simply a mechanism to do away with capital gains taxes for those who already have accumulated savings to invest. With this approach, we will also help workers accumulate savings (in the form of stock ownership) of their own.

On **community development banking**, Mr. Espy's idea is similar to the now well-known Grameen Bank model. His former congressional district is the third poorest in the country. It includes 11 of our 25 poorest counties. Yet, there are many people who are idea rich but capital poor. They are shut out of the private sector banking system, because they are considered too risky, or their loan needs are simply too small to be profitable for the private sector.

But community development banking has to go beyond simply loaning money. A proactive approach is needed to develop entrepreneurs and encourage new venture creation. The services must be capacity building, and the bank must be an integral part of any sustained economic development. Mr. Espy has proposed a regional development institution which primarily supports formation and growth of local institutions through capacity-building and investment activities. Such a regional institution would also undertake industrial sectoral development services and regional economic research and analysis.

It is conceived as a holding company with three subsidiaries: a local capacity building not-for-profit, a for-profit enterprise fund, and a not-for-profit regional services company. It would be a federally chartered, private corporation with a broad economic development mandate, capitalized with a grant or long-term, low-interest, forgivable loan.

One of the key purposes of the bank would be to make seed capital available and foster technical assistance for microenterprises. Again, by developing microenterprises we would be helping those who are trapped in poverty develop assets.

In the long run, asset development strategies should supplant traditional welfare programs which rely on transferring the poor income. Income transfers are at best a strategy for subsistence. They do not, however, empower the poor nor foster the ownership of the productive assets they need to significantly improve their standard of living.

In various ways, asset development strategies seek to expand ownership of assets. In the long run, the administration should seek to expand ownership of productive capital. Poverty and economic instability persists for millions of Americans because too they are effectively denied opportunities to own productive capital assets. Strategies which break those barriers, and foster expanded ownership of assets of all kinds, should be the lynchpin of the Administrations new approach to empowerment.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM TO: Paul Weinstein and Paul Dimond

THROUGH: Kenneth F. Ryder

FROM: Joseph Firschein/Jenni Main

SUBJECT: Community Investment and Enterprise Zone Proposals

This is in response to your request for a review of proposals for community financial institutions and enterprise zones. Section I below reviews community investment proposals and Section II discusses enterprise zone proposals.

I. Community Development Investment By Financial Institutions

This section discusses proposals for community investment from sources including: 1) the Clinton Administration's February 17, 1993 document, 2) Clinton transition team material, 3) proposals from the Hill, and 4) outside banks, non-profits and other community development groups' recommendations.

1) Clinton Administration February 17th Proposal

The budget document printed February 17, "A Vision of Change for America," included a brief paragraph generally describing a community development proposal that would be funded at a level of $382 million over four years. Outlays would be $354 in the first four years, with $110 million outlayed in FY97. The paragraph stated:

> Many American communities face problems of deteriorating housing, loss of jobs, lack of private enterprise, and declining economic and social infrastructure. A network of community development banks will be created to provide loans for business and housing purposes in distressed communities that have previously been underserved by traditional lending institutions. Government investment and technical assistance would supplement private funds and expertise to ensure community development banks' effectiveness in restoring healthy economic development in these communities.

These resources have been included within the Treasury Department budget totals also identified in the February 12th plan.

2) Community Empowerment Proposal in Clinton Transition Document

The "Community Empowerment" chapter in the transition document "The Clinton Revolution: A Domestic Policy Agenda For The First 100 Days," included an initiative to create a network of community development banks. The proposal provided for:

- Creation of a National Community Development Trust (the Trust), an independent agency, which would establish and invest in community development banks and related community investment institutions, provide technical assistance, and serve as a management assistance clearing house.

- Federal assistance would be open to all types of community development (CD) financial institutions including CD banks, CD loan funds, CD credit unions, CD corporations, and micro-enterprise funds. However, the federal assistance would favor community development banks.

- Types of federal assistance available would include:

  - federal matching grants for capital
  - grants for technical assistance and development services
  - direct loans and loan guarantees for technical assistance or capital projects
  - access/membership in the Federal Home Loan Bank System
  - tax credits for individuals or entities who invest in CDFIs
  - Community Reinvestment Act (CRA) credit for banks who assist CDFIs.

- Requirements for federal assistance would include a strict community purpose and involvement test, and a commitment that at least 75 percent of loans and investments would be made in targeted areas.

- The Trust would receive $850 million over five years.

3) Proposals In Congress

The only current community investment legislative proposals that we are aware of include one bill sponsored by Senator Riegle and one bill sponsored by Representative Leach.

Riegle's Enterprise Zone Bill

Riegle's current Enterprise Zone Bill (S100), introduced on January 21, 1993, contains many of the same community investment proposals from the tax bill vetoed by Bush last year. In addition to enterprise zones, key provisions include:

- Establishment of a community development credit program under Health and Human Services (HHS) which would provide for lines of credit to CD corporations to establish, maintain, or expand community development revolving loan funds. Program requirements include:

  - competitive applications for funds
  - a 1:1 private/public match of funds
  - only CD corporations could participate
  - funds must be used in targeted areas for residents making less than the median area income
  - up to 10 percent of the funds may be used for technical assistance.

- Establishment of an HHS grant program for emerging CD corporations to upgrade management and operational capacity. Eligibility limited to CD corporations with minimal experience. Includes a maximum grant amount of $75,000.

- Establishment of a separate HHS grant program for emerging CD corporations to establish, maintain, or expand revolving loan funds, make direct or guaranteed loans, or make capital investments in local businesses. Eligibility limited to CD corporations with minimal experience. Includes a maximum grant amount of $500,000, with up to 10 percent to be used for technical assistance.

- Authorization for HHS to make grants for research, studies or demonstrations related to community economic development. CD corporations, universities, and non-profits would be eligible for grants up to $50,000.

- Total authorization for the HHS programs would be $40 million for FY93, $100 million for FY94, and $125 million for FY95. The research grants are not included in these totals and would be appropriated "such sums as may be necessary."

- Authorization for the Department of Housing and Urban Development (HUD) to provide capital and technical assistance grants to eligible nonprofit community development organizations for expanding affordable housing, economic and community development activities. The proposal includes:

  - competitive applications
  - grants of up to $1 million
  - a HUD training program to assist CD organizations in building capacity.
  - a 1:1 match of funds required
  - $100 million authorized in FY93, $200 million in FY94.

The Leach Bill

The "Community Development Banking Act of 1993," was introduced by Congressman Leach (R-IA) on January 5, 1993. His proposal does not set up a specific program, but instead amends existing legislation to provide more requirements and incentives for community development lending. His proposal includes:

- Reforming the CRA to as follows:
  - sets specific standards for compliance
  - institutions receiving an "outstanding" CRA rating could not be denied a request on CRA grounds by a Federal regulatory agency
  - institutions that invest the "maximum amount permissible" in qualifying community development investment will be considered to have met all CRA requirements.[1]
- Banks and thrifts would be allowed to "organize, sponsor, or underwrite securities issued by companies" that are located and primarily doing business in qualified distressed communities (as defined in the Bank Enterprise Act (BEA)).[2] The business would have to be confined to designated areas.
- Would establish a public awards program to recognize outstanding efforts by depository institutions in meeting the needs of their communities.
- Requires goals to be established for Fannie Mae and Freddie Mac to purchase mortgages originated by community development organizations (as defined in the BEA).
- Establishes a micro-loan guarantee demonstration program which would be a model private secondary market for small business loans guaranteed under this section.
- Sets specific requirements for designating community development credit unions, and makes revisions to the National Credit Union Administration Community Development Revolving Loan Fund.

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[1] At this time, there are no maximum permissible amounts for community development investment set by regulators.

[2] The BEA, enacted in December 1991, authorized the FDIC to assess lower deposit insurance premiums for federally-insured depository institutions that (1) originate new loans to low-income distressed communities and (2) provide low-cost banking accounts for low-income individuals. The BEA requires discretionary appropriations; no funds have been appropriated to run the program, although $1 million was authorized to cover start-up costs.

- Enhances the BEA by:
  - expanding it to explicitly include community development banks and distressed rural areas
  - allowing insured depository institutions located in qualified distressed communities to sell property and casualty insurance as long as the activities are confined to that area
  - setting up a prioritization process for BEA credit.

- Establishes a program for Federal regulatory agencies to encourage insured depository institutions to offer financial educational services to consumers residing in qualified distressed communities (as defined in the BEA).

Development Demonstration Proposal

The only other recent community investment legislation we are aware of was introduced by Rep. Traficant (D-OH) in March 1991, entitled, "Economic Development Loan Assistance Demonstration Program Act of 1991," (H.R. 1588). This brief proposal would have authorized HUD to make grants to CD corporations for the purpose of offering reduced interest rate loans to businesses and non-profits. The funds would have to be used for economic development activities in specific enterprise zones selected by HUD for the demonstration program. The bill sought to appropriate $100 million over three years for the demonstration.

<u>4) Proposals From Outside Groups: Banks, Non-Profits, and Community Development Organizations</u>

The House and Senate Banking committees have held numerous hearings on community development and related issues in the past few weeks. Witnesses included CD bankers, CD loan fund organizations, CD credit unions, and other nonprofit institutions involved in CD issues. Some witnesses offered recommendations for developing a CD program, but none had specific proposals per se. Recommendations made by Milton Davis of the South Shore Bank, Lyndon Comstock of the Community Capital Bank, and a group of CD organizations are included here.

Milton Davis of the South Shore Bank

To expand community development incentives for existing institutions, Davis recommended:

- Institutions meeting a high threshold of community lending should be given expanded privileges, including interstate banking, authorization to sell insurance and underwrite securities, and higher levels of deposits insured.

- The CRA should be clarified to reward higher investment levels rather than focusing on resources spent on documentation and the compliance process.

- New mechanisms should be developed to encourage lenders to make more small business loans.

- Create an incentive structure to encourage commercial banks to invest in CD banks, CD loan funds, CD credit unions and micro-credit programs.

To encourage the creation of new CD banks, Davis recommended:

- Provide federal funding for equity investments in development banks, but require a match from private funds, and require them to be privately owned, regulated financial institutions.

- Have an independent agency make and oversee the federal loans. "Investment agreements" that identify specific goals for each bank would be used as a performance-based control measure. For equity investments, the agency should be an active, voting shareholder.

- Allow ATM deposits across state lines for development banks to make their deposit programs more attractive.

- Make grants, forgivable loans, and other creative financing available to non-profit, non-bank affiliates of CD banks to help support the development process.

- Provide for appropriate training and capacity building programs.

Lyndon Comstock from the Community Capital Bank

Comstock made the following recommendations for a federally-supported community development program:

- Any federal support should be available to all types of new and existing CD financial institutions serving urban and rural areas and reservations.

- Federal support should include federal equity investments, but the government should be a nonvoting shareholder.

- Technical assistance funding should be available for business planning and board member and management recruitment.

- A federal program would be best administered by a quasi-independent corporation.

Ad Hoc Group of CD Lenders

An ad hoc group of eight CD lenders including:

- the Association for Enterprise Opportunity
- the Center for Community Self-Help
- the Community Capital Bank
- First Nations Development Institute
- the National Association of Community Development Loan Funds
- National Federation of Community Development Credit Unions, and
- the Woodstock Institute,

put together a document entitled "Principles of Community Development Lending and Proposals for Key Federal Support," in response to Clinton's proposal and the various legislative hearings. Their key recommendations include:

- Community development "banks" should be defined to include the spectrum of CDFIs comprising CD loan funds, CD credit unions, micro-loan funds, and CD banks.

- The scope of CD lending should be expanded beyond small business credit to also include housing credit and consumer financial services.

- Experienced CD organizations should be consulted in crafting legislation, and in setting up and evaluating the CD financial institution network.

- Program should emphasize expansion of existing CD financial institutions rather than simply undertake wholesale efforts to create new development banks.

- Proposal should reflect recognition that successful development lending institutions are built over time and with incremental performance-based financial support.

- Legislation should clarify the different interests and responsibilities of conventional lenders, public agencies, and CD financial institutions. The CRA should be strengthened and expanded.

- Strategic federal support should include:

  - equity capital or net worth grants
  - below-market and long-term deposits or loans
  - funds for human capital development such as internships, cooperative training agreements, and regular seminars
  - funds for technical assistance and new credit product development.

- The funding level of $850 million over five years reportedly being considered "seems to be at an appropriate scale."

II. Enterprise Zones

This section includes a brief background description and discusses proposals for enterprise zones including: 1) Clinton Administration's February 17, 1993 document, 2) 1992 Congressional enterprise zone legislation, 3) 1993 Congressional enterprise zone legislation, and 4) Bush Administration enterprise zone proposals.

Background Program Description

- Enterprise zones are economically distressed areas designated for preferential governmental treatment to promote investment and job creation by private industry. The rationale behind enterprise zones is that reducing governmental burdens on industry (through tax or regulatory relief) can compensate for higher risks and potential costs associated with operating businesses in distressed areas (such as high crime and untrained labor).

- The objective of enterprise zones is stated in the statement of purpose in the 1992 tax bill (H.R. 11, Title I):

  - to revitalize economically and physically distressed areas, primarily by encouraging the formation of new businesses and the retention and expansion of existing businesses;

  - to promote meaningful employment for tax enterprise zone residents, and;

  - to encourage individuals to reside in the tax enterprise zones in which they are employed.

- Despite numerous attempts to create a Federal enterprise zone program, no legislation that has included financial incentives has been enacted, in large part because of the expected cost in terms of foregone receipts to the Treasury.

1) Clinton Administration February 17th Proposal

Although there was no specific discussion of the tax incentives or number of zones in the Administration's February 17 document, the document did specify the amount of resources the Administration is prepared to commit to enterprise zones:

(In millions of dollars)

1994	1995	1996	1997	1998	94-97
73	347	772	1228	1669	2420

- Within the cost constraints established by the President, there are a number of policy choices that have to be made to develop a specific Administration proposal. These issues include:

  - Number and size of zones (and urban/rural split).
  - Specific wage and investment incentives.
  - Designation of zones (HUD, Agriculture, Interior).
  - Design of non tax incentives (funding targeted to zones, regulatory relief, as well as State/local contributions).
  - Provision of tax incentives for all areas that qualify by poverty/distress criteria (regardless of whether they are specifically designated as enterprise zones).

- The cost estimate in the February 17 document was based on Treasury projections of an enterprise zone proposal with the following general characteristics (similar to H.R. 11 model):

  - 50 zones total, phased in between 1994-1998. Includes 30 urban (half to cities over 500,000; half to cities below 500,000 in population); 15 rural; 5 Indian reservation zones.
  - Localities must nominate areas for zone designation and commit to local course of action. Urban zones designated by Secretary of HUD; Rural zones designated by Secretary of Agriculture; Indian zones designated by Secretary of Interior.
  - 25% employer wage credit against the first $15,000 of wages paid to employee who both resides and works in zone (max credit $3,750 per qualified employee per year).
  - Extension of the targeted jobs tax credit to cover zones.
  - Increase in Section 179 expensing allowance from $10,000 to $50,000 per year.
  - Accelerated depreciation by shortening the recovery period by 35 percent.
  - Low income housing credit expanded so that low income housing projects in zones would receive beneficial treatment.

- A new category of tax-exempt bonds (enterprise zone facility bonds) available in areas meeting zone criteria.

- In addition to the enterprise zone tax incentives, the February 17 document also included funding targeted to enterprise zones. The estimated cost is $500 million in FY 1993 and $516 million in FY 1994, based on a model authorized under Title XI of H.R. 11 and appropriated under the 1992 Supplemental Appropriations Act. The funding is comprised of an Enterprise Community Block Grant Demonstration Program and a National Public/Private Partnership Program (NP/PP). According to H.R. 11 authorization language, the block grant funding can be used to augment available funding for a broad range of Federal programs related to providing community assistance. The NP/PP also consists of a range of Federal programs in the areas of health care, drug treatment, job training, neighborhood investment and law enforcement.

<u>2) 1992 Congressional Enterprise Zone Legislation</u>

- At the end of the 1992 Congressional session, Congress passed H.R. 11, a $27 billion urban aid-tax relief bill containing a federal enterprise zone program. This legislation was vetoed by President Bush.

- The enterprise zone program passed by Congress as H.R. 11 provided 50 zones, 25 in urban areas and 25 in rural areas. It also provided 2 Indian reservation incentives. The proposal was essentially the version passed earlier in the session by the House as proposed by Rep. Dan Rostenkowski (D- IL). The Senate had proposed a program of 125 zones.

- Urban zones designated by the Secretary of HUD; Rural zones designated by the Secretary of Agriculture, in consultation with the Secretary of Commerce.

- Zones must meet objective eligibility criteria based on population, distress, size, unemployment rate, and poverty rate. Urban zones can not exceed 20 square miles and can not include any portion of a central business district; rural zones can not exceed 10,000 square miles and must be located entirely within one State. All zones must demonstrate local "course of action" in addition to Federal incentives.

- The enterprise zone tax and credit incentives in H.R. 11 included:

  - a 15% credit for employers on the first $20,000 of wages paid to zone residents who work in the zones;

- increased expensing allowances for depreciable business property;

- a 50% capital gains exclusion for individuals for gains on property in the zone used in a business;

- deferral of capital gain on certain property, provided that the proceeds are reinvested in the zone;

- ordinary loss treatment on dispositions of certain business property;

- expensing for individuals of up to $25,000 a year for purchasing certain stock; and

- expansion of tax-exempt bond rules for enterprise zone businesses.

o In addition to the tax incentives, Congress provided a targeted spending component in H.R. 11 (Title XI -- "Authorization for Additional Assistance to Distressed Communities") that would have focused resources on enterprise zones. The bill authorized:

  - $180 million in FY 1993 for a National Public/Private Partnership (NP/PP). There were seven community development programs eligible for funding under the NP/PP. Only $30 million of the $180 million in the NP/PP was authorized for non-enterprise zones.

  - $320 million in FY 1993 for a block grant directed towards enterprise zones. The block grant authorized funding for a range of programs in five broad program areas: crime and criminal justice; job training; education; health, nutrition, and family assistance; and housing and community development. 70 percent of funds were made available to urban zones and 30 percent of funds were available for rural zones. The bill authorized an "interagency council" of eight Federal agencies to review and approve applications for funding.

o The cost of H.R. 11 was estimated at between $2.4 and 2.8 billion over a 5 year period between FY 1993-1997.

3] <u>1993 Congressional Enterprise Zone Legislation</u>

o There have already been several Congressional enterprise zone proposals introduced in 1993. S. 100 (the "Enhanced Enterprise Zones Act of 1993"), introduced by <u>Senator Riegle</u>, is essentially a reintroduction of H.R. 11 as passed by Congress in 1992 (provides 50 zones -- 25 urban; 25

rural). The cost of the Riegle proposal would approximate that estimated for H.R. 11.

- H.R. 15 ("Enterprise Zone Community Development Act of 1993"), introduced by Representative Rangel, also closely follows the H.R. 11 model but provides more zones -- 150 zones between 1993 and 1997 (50 urban zones with population of at least 600,000; 50 urban zones with population below 600,000; 50 rural zones). There is no available cost estimate of the Rangel proposal.

4) Other Enterprise Zone Proposals

- In the 1992 Congressional session, the Bush Administration supported enterprise zone legislation (S. 3111) introduced by Senators Kasten and Lieberman. This legislation can be viewed as an alternative to the H.R. 11 model -- with no set limit on the number of zones. The bill proposed that all areas that qualified by poverty/distress criteria should receive zone tax benefits within an overall cost constraint. Under these criteria, an estimated 300 communities would be eligible -- 200 urban and 100 rural. The proposal included:

  - a fixed tax expenditures cap of $2.5 billion over five years. Once the cap is reached, no additional zones would be designated;

  - zero capital gains tax on tangible and intangible zone property and investments;

  - expensing of up to $20,000 worth of stock in zone business by non-zone investors ($100,000 lifetime) instead of zero capital gains. Zone residents and workers get both;

  - a refundable wage credit worth up to $900 extended to unemployed youth and other low-income persons not now receiving Earned Income Tax Credit;

  - expensing of plant and equipment for small businesses (up to $50,000 of equipment annually, rather than the current $10,000 limit);

- Similar to H.R. 11, the proposal included $500 million in spending on targeted funding within the Department of Justice ($30 million); Department of Labor ($92 million); Department of Health and Human Services ($226 million); Department of Housing and Urban Development ($90 million) and Department of Education ($56 million). Of the total $500 million in Federal resources, up to $400 million was directed to neighborhoods in enterprise zones. Up to $100 million was directed to neighborhoods that are not designated enterprise zones.

- There has been no legislation introduced in 1993 that follows this model of unlimited zone designation within a fixed cost cap.

THE WHITE HOUSE

WASHINGTON

February 19, 1993

MEMORANDUM FOR COMMUNITY INVESTMENT INTERAGENCY TASK FORCE

FROM: Paul Weinstein

SUBJECT: Political calendar for community financial institution/enterprise zone legislation

Community Financial Institutions

After discussions with the House and Senate Banking Committee staffs, it is clear that we need to move quickly if we want to pass legislation this year. The consensus is that we need to send a bill to Congress no later than the beginning of April, although preferably earlier. This will allow for hearings on the bill and a markup to take place in late April and, assuming the legislation is passed out of Committee, floor consideration before the August recess. Hopefully the bill will go to conference in the early fall and we can expect passage sometime in October.

Sending the bill to Congress in late March or early April also makes sense in light of other Presidential initiatives going to the hill this spring. Congress will be preoccupied with the budget and tax bills in February and early March, while health care will be the dominant legislative issue in late spring.

On the House side, there are some jurisdictional problems within the Banking Committee. Three subcommittees are interested in the legislation, so the sooner we develop a policy framework, the quicker Gonzalez will designate jurisdiction.

Traditionally the Senate Banking Committee holds multiple hearings but markups can occur quickly, with regards to community financial institutions one day should suffice. The House Banking Committee tends to spend less time on hearings but their markups can drag on.

Enterprise Zones

Unlike the community financial institutions bill, enterprise zone legislation should not be a stand alone bill. The most obvious legislative vehicle for enterprise zone legislation is

the omnibus revenue bill, which will likely be taken up in March. Thus, passage of enterprise zone legislation is conditioned on passage of a revenue bill that includes the President's new tax initiatives.

A stumbling block on the enterprise zone legislation is the issue of multiple jurisdiction. On the House side, Ways and Means, Banking, Energy and Commerce, and Agriculture, all have jurisdiction. However, since the Congress came close to passing legislation last year, they may be more likely to move a bill quickly, especially if it is part of a larger revenue package.

Tentative Legislative Target Dates -- Community Financial Institutions Legislation

March 22 to April 9	-- Legislation submitted to Congress.
April 12 to May 7	-- Senate Banking Committee holds hearings. and markup. House Banking Committee holds hearings and Subcommittee has markup.
May 7 to May 21	-- Legislation is considered on Senate floor. House Banking Committee holds full Committee markup.
May 21 to June 21	-- Legislation is considered on House floor.
Post-August Recess	-- House/Senate conference and final passage.

Tentative Legislative Target Dates -- Enterprise Zone Legislation

Depends on time frame of omnibus revenue bill, but we will need a proposal in March.

cc: Paul Dimond
Sheryll Cashin

THE WHITE HOUSE

WASHINGTON

February 24, 1993

AGENDA

WORKING GROUP ON EMPOWERING OPPORTUNITY AND RESPONSIBILITY

FEBRUARY 25 MEETING
OEOB ROOM 324; 9:30 - 11:30

I. Role of Community Development Banks and Enterprise Zones in Plan for a New Direction (10 minutes)

II. Enterprise Zones: a Footprint for an Action Partnership Between Individuals, Communities, the Private Sector and Local, State, and Federal government; and a Challenge Process for Encouraging more Communities to join in such Innovation (30 minutes)
   A. Criteria
   B. Challenge Process
   C. Interagency Coordination of Program

III. Community Development Banks: One Element in a larger effort to End Discrimination and to Empower People with Capital, Banking services, and the Wherewithal to Build Businesses (30 minutes)
   A. Nature of Entity or Entities
   B. Type of lending: business, housing or consumer
   C. Support services
   D. Relationship to Private CD Banking Initiative, CRA and Community Lending

IV. Next Steps (30 minutes)
   A. Political Calendar
   B. Specific Proposals
   C. NEC/DPC Meeting with Secretaries
   D. Reinventing Programs, Interagency Cooperation, Regulatory and Private Sector Initiatives

THE WHITE HOUSE

WASHINGTON

February 24, 1993

MEMORANDUM FOR INTERAGENCY TASK FORCE ON ENTERPRISE ZONES/COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

FROM: **Paul Weinstein**

SUBJECT: **Community development financial institutions proposals (Discussion Draft)**

Background

During the campaign, President Clinton pledged to establish a network of community development banks (CDBs). These innovative financial institutions would provide credit to communities not served by traditional sources of lending.

There is substantial interest in Congress in exploring ways to expand the role of non-traditional financial institutions in helping to revitalize distressed communities. The recently enacted Housing and Community Development Act of 1992 includes a provision establishing and authorizing funding for a "community investment corporation" demonstration program. However, we still lack a consensus as to the best way to proceed. Issues that need to be resolved include:

1) Capitalization and alternative forms of financial assistance
2) Structure
3) How many, how quickly
4) The relevant geographic domain
5) Selecting applicants

1) Capitalization And Alternative Forms Of Financial Assistance

In the President's budget, Community Development Financial Institutions (CDFIs) are targeted to receive $354 million through FY97. This represents a 50% increase in the total capitalization of CDFIs. However, we may want to utilize the private sector in providing additional capital.

Menu of Options

- Federal Matching Grants For Capital -- For a CDFI of any type, the federal government could provide a start up capital grant. This contribution could be provided on a one-third/two thirds matching basis with private equity raised by the applicant (the contribution for a community development credit union could be in the form of a purchase of membership shares). In most cases this would be a one time contribution. The one time nature of capital assistance would prevent dependence on annual government capital contributions and would therefore prevent political manipulation of CDFIs.

  In the case of a for-profit CDB, the federal government could provide a start-up capital contribution through the purchase of subordinated equity. A stock purchase agreement could be structured so that if a given CDB achieved a certain level of profitability, some or all of the government's initial contribution would be repaid. Such an agreement would also give the government additional control and leverage if needed. The government could also choose to retain its equity for an indefinite period. A larger question is whether all these institutions need to be for-profit.

- Soft Grants -- Grants could also be made for planning, technical, and development services assistance. These grants would not necessarily have to be made on a matched basis.

- Direct Loans And Loan Guarantees -- The government could also make direct loans (at Treasury rates) or provide loan guarantees for expansion, technical assistance, or for other services needed to enhance the CDFI mission. The loans or loan guarantees would be made at terms to be determined by the government.

- Access To The Federal Home Loan Bank System -- The federal government could also pay for CDFIs to join the Federal Home Loan Bank System (FHLB) when appropriate. Because so many of the FHLB's primary customers (thrifts) have disappeared due to insolvency, the system has become an entity in search of a mission. Since the purpose of CDFIs is so close to that to the thrifts of yesteryear, the system is a natural support network for CDFIs. FHLB membership would give CDFIs access to a liquidity facility (a "window" and access to longer term funds at below market rates for community investment activities). Under current law, any financial institution may join the system. However, the cost of membership through a purchase of FHLB stock can be high, particularly for small banks. Having the government shoulder this cost would give CDFIs a big boost.

  The Federal Home Loan Bank Act could be amended to provide CDFIs with an explicit authority to join the system with full membership rights.

- Secondary Market -- As a government sponsored enterprise (GSE), the FHLB system could be an appropriate vehicle through which to establish a secondary market of CDFI loans -- most of which, for reasons of size and credit quality, don't conform to current secondary market standards. A secondary market for small business loans would be particularly helpful to CDFIs and other small financial institutions and could certainly increase credit availability. One way to market these loans is to place them in larger portfolios. This could be done with the cooperation of larger commercial banks.

- Community Reinvestment Act -- The current Community Reinvestment Act (CRA) gives bank regulators broad discretion to decide how, and in what manner, commercial banks may demonstrate that they are making good faith efforts to lend to their local communities. Currently, regulators give banks CRA credit for contributions to and investments in CDBs. Without any legislative action, the regulators could easily let bankers know that a good way to demonstrate "substantial compliance" with CRA is to invest in and assist the formation and/or operation of CDFIs.

  One additional step could be taken to provide even greater incentives for banks to assist CDFIs; CRA could be amended to authorize the regulators to give banks enhanced CRA credit for assistance to CDFIs. This would undoubtedly increase bank assistance to CDFIs. However, it would also be highly controversial. Community groups would be opposed on the grounds the CDFI legislation would be used to circumvent CRA, or even gut it. Therefore, any proposal would also have to include specific measures to strengthen CRA, such as placing greater emphasis on lending performance.

- Link Creation Of CDFI Network To Expanded Powers/Interstate Branching Or Banking -- Another way to increase the flow of private sector funds to CDFIs would be to base the granting of expanded powers, such as interstate banking and branching, to contributions to CDFIs. This linkage could also lessen the criticism of interstate banking and branching by community groups concerned about the consolidation of smaller lending institutions.

  One problem, however, is that an attempt to tie new powers to CDFI legislation could seriously delay passage of the proposal. The House Energy and Commerce Committee will claim jurisdiction over the bill, and the legislation could become gridlocked.

2) Structure

Another issue that remains to be decided is where to locate the network. Many different agencies would bring unique and valuable expertise. Treasury has a knowledge of banking and finance. HUD has the best understanding of housing and urban economic development, and Agriculture rural development. While Commerce has experience in commercial business development and in expanding opportunity for minority entrepreneurs -- a prime objective of CDFIs.

Logic seems to dictate that all the mentioned agencies should be involved. The question then is how. One solution, but not the only one, would be to create a new independent agency, a trust, with a board that included the representatives from each relevant agency, led by a chairman nominated by the President.

Making the trust an independent agency would give it added prestige and political autonomy. It would give those administering the CDFI program flexibility. However, creating yet another agency might send the wrong message at a time of agency cutback and burgeoning budget deficits. In addition, it is likely to be more expensive for the trust to operate as an independent entity with the support services it might have as part of another agency.

Another option would be to place CDFI program at the Federal Housing Finance Board (FHFB). The FHFB is an agency in search of a mission, with experience in establishing secondary markets and GSEs. We could arrange for Treasury, HUD, Commerce, and Agriculture to serve as a type of board for the program, in order to tap into each of those agency's expertise.

One problem is FHFB's legacy from the S&L crisis. While the agency has made significant strides, it might not be wise to place a new banking program with potential safety and soundness problems, at the FHFB.

This raises the issue of who will regulate and insure these new institutions. Should we continue on a piecemeal approach, or should we draft a new charter? These question have yet to be resolved.

3) How Many, How Soon

During the campaign, President Clinton stated that he would like to create a network of 100 CDBs. While a nice round figure like 100 is an excellent press hit during a campaign, we want to avoid setting a numerical target for the number of institutions. If we force the creation of institutions, we could have a major safety and soundness problem. The number of institutions should grow no faster than the marketplace can absorb them.

We may want to focus on the percentage increase in credit availability. Based on our budget request, the federal government will be providing a 50% increase in CDFI capital. Private sector contributions may quadruple that amount.

4) The Relevant Geographic Domain

There is an ongoing debate about whether the service area of a CDFI would be broadly or narrowly circumscribed. By way of illustration, South Shore targets five communities on Chicago's south and west sides. Arkansas' Elk Horn Bank serves a large portion of the State; New York Community Capital Bank serves all of New York City.

In favor of a narrow definition is the risk CDFIs will use subsidized lending to achieve purposes other than "community development." Against such a narrow definition is the fact that the broader the lending area, the more likely the survival of the lending institution. A broader definition is also supported by the inevitability of market evolution and neighborhood change.

What seems to be the best approach is regulatory flexibility. Under this approach, the statute would direct the regulators to consider carefully how the applicant institution defines its relevant lending market in selecting making. This is particularly necessary as the planned network of CDFIs would serve a range of areas and likely reflect a spectrum of catchment-area definitions.

5) Selecting Applicants

There is a general consensus that who participates in the network should not be decided by the type of institution but rather by the mission of the institution. There is a whole range of different kinds of non-traditional, community-based financial institutions. These institutions are specifically dedicated to revitalization of distressed areas and are typically able to underwrite more small and nonstandard loans than tradition lenders due to their expertise, commitment, and flexibility. These institutions are structured in a variety of forms:

- <u>Community Development Banks</u> -- These are federally insured and regulated depository institutions that have been organized specifically to provide capital to rebuild lower-income communities. Just four community development banks operate in the U.S. today: South Shore Bank in Chicago, Elk Horn Bank and Trust in Arkansas, Community Capital Bank in Brooklyn, N.Y., and the Self-Help Credit Union in North Carolina. South Shore, Elk Horn, and Self-Help Credit Union are part of larger bank or non-profit holding companies that include independent, non-depository credit and support mechanisms such as venture capital funds, development loan funds, and technical assistance agencies;

- <u>Community Development Credit Unions</u> (CDCUs) -- These are regulated financial cooperatives owned and operated by lower-income individuals. Typically, CDCUs provide consumer banking services -- savings accounts, check cashing -- that may not be locally available to their members, as well as personal loans for consumer goods purchases, home rehabilitation, and car purchases. A growing number of CDCUs are making development loans for small business expansion and start-up, home purchases, and housing rehabilitation. Prominent development lending credit unions include Self-Help Credit Union in Ithaca, NY, First Americans Credit Union in Windo Rock, AZ, and the Santa Cruz Credit Union in California. CDCUs offer deposit insurance up to $100,000 per account through the National Credit Union Administration;

- Community Development Loan Funds (CDLFs) -- These are unregulated financial intermediaries that aggregate capital from individual and institutional social investors at below-market rates and re-lend this money primarily to non-profit housing and business developers in urban and rural lower-income communities. CDLFs place a strong emphasis on financing projects that provide new economic opportunities and resources to borrowers and others in their communities;

- Micro-Loan Funds (MLFs) -- These are most often components of micro enterprise development programs that integrate both economic and human development strategies. Loans to micro enterprises range typically between $250 and $10,000 to startup or expand self-employment or micro businesses up to five people, normally family members;

- Non-Profit Community Development Corporations (CDCs) -- These institutions have evolved over the past 25 years. Many of these organizations not only develop affordable housing and small businesses, but also operate loan funds and invest in housing and community development projects. A subset of CDCs are the 180 Neighborworks community-based lenders, monitored by the Congressionally-chartered Neighborhood Reinvestment Corporation. There are some 2,000 CDCs in the United States today.

There are also a number of hybrid DCFIs that do not fit exactly into these categories but that provide critical financing to community development efforts.

All these types of institutions should qualify for the program. The question is how do we ensure that the participants fulfill the mission. The Senate Banking Committee lists several performance goals in their draft legislation. They include:

- 70% of all loans made to individuals must be to individuals who are low- or moderate-income residents of a targeted area or population;

- 35% of all loans made to individuals must be to low-income residents of a targeted area or population;

- All loans to organizations, all development services provided, and all equity investments must principally benefit low-income residents of targeted geographic area or population.

We must decide if these performance goals are workable, or if we should develop an alternative measurement.

DRAFT Draft Draft Draft

2/24/92

Options for Community Development Bank Proposal

I. Participants

A. Require all adequately capitalized bank holding companies (or banks that are not subsidiaries of a bank holding company), and thrifts with loans of more than a specified amount (e.g. $10 billion) as of 12/31/92 to:

1) Dedicate a specified percentage of its total capital (e.g. 3/4%) toward the establishment of a Community Development Bank (CDB) in an economically distressed area.

2) Contribute an additional percentage of total capital (e.g. 1/4%) to a Capital Investment Fund (CIF) established to provide capital to independent community development banks.

B. Allow all other banks, bank holding companies (BHCs), or thrifts to establish CDBs on identical terms, including the option of making their full capital contribution to the CIF only.

II. List of Possible Inducements for Participating Institutions:

A. Allow interstate branching by BHCs in states where:

• State-wide branching is permitted;

• Nonresident BHCs are or would be currently permitted to operate a banking or thrift subsidiary; and

• BHC holds a "sufficient amount" of "qualifying assets" which demonstrate a meaningful and quantifiable commitment to community development in distressed areas of that state.

B. Grant Community Reinvestment Act (CRA) credit and/or reduce CRA paperwork requirements.

C. Allow well-capitalized CDBs to branch nationwide into economically distressed areas.

NO

D. Allow well-capitalized CDBs located in distressed areas to invest in, deal in, or underwrite securities issued by small businesses located there.

E. Allow well capitalized CDBs to sell insurance in distressed areas.

III. Other Initiatives

A. Publicly reaffirm regulators' commitment to the principles of safe and sound community reinvestment and affordable housing.

B. Strengthen enforcement of fair lending standards; including establishment of pilot project utilizing "testers."

C. Reexamine CRA requirements; develop less burdensome, more results oriented examination.

D. Identify and address regulatory barriers to credit availability, including small business lending and affordable housing.

E. Facilitate investment in human capital necessary for community development, e.g., development of management capacity and a proper credit culture within CDBs; and provision of technical assistance needed to create and maintain the flow of new community development projects.

DRAFT

ENTERPRISE ZONE PROPOSAL
Submitted by HUD

According to rhetoric we have heard from both political parties, during the campaign and echoing in Congress, "enterprise zones" are the federal prescription to the woes in distressed urban and rural communities. However, discussions held, proposals put forth, and certainly the name itself, largely suggest that the "zones" are primarily an entrepreneurial undertaking based on the assumption that attracting business to an area assures resurgence. The premise is flawed. Congress signaled their recognition of this fact by introducing the concept of linkages between enterprise zones and social services, housing, crime and community policing initiatives, and infrastructure. Not only is this approach politically viable but also it is intelligent social and economic policy.

HOLISTIC APPROACH

Our proposal is based on the thesis that a severely distressed area cannot be "re-vitalized" without a comprehensive approach. Over the past thirty years, we have learned that isolated, episodic efforts are destined to fail. A holistic approach which addresses the multi-faceted needs of the individual and community is the appropriate response. Because the plethora of ills in our cities -- crime, welfare dependence, infant mortality, substandard housing or no housing, and a propensity among residents for substance abuse, have persisted through, literally, generations of people now, long-term recovery of our cities can no longer be predicated on urban economic activity alone.

A close look at urban distressed areas would reveal that blight and egregious circumstances drove out economic activity, therefore to attract and sustain such activity, the blight and distress must be eradicated. This is no longer about the availability of jobs alone -- it is about a community's capacity to thrive and to be an incubator for healthy, productive and skilled residents. IBM will not be lured by a package of financial incentives into a drug and crime-ridden area whose residents are primarily under-trained or under-educated and dependent on government subsidies. Certainly, the financial package would not be the impetus for such a move, because the presumed costs -- increased security, excessive job training -- would surpass presumed savings.

H.R. 11, vetoed last fall, and now, S. 100 offers at least the recognition of the need for a comprehensive, enhanced approach by increasing current services. But the missing element is the common thread which ties these services together in an integrated holistic approach that guarantees the woman who receives prenatal care, receives WIC and her child attends Headstart, or that guarantees a disenfranchised man receiving substance abuse treatment, receives job training, job placement and day care services. The needs of an individual are interdependent, as are the needs of a community. If a community has good paying jobs, decent housing, adequate security, innovative schools, recreational outlets and support organizations, it is thriving again. This discussion must be as much about the disenfranchised American as it is the disenfranchised community. If it is not, any approach will fail.

To be sure, the approach we propose does not necessarily require additional resources (beyond tax incentives and the appropriated $500 million), but the better coordination of existing resources. This proposal would develop a master plan for the area and focus federal funding programs while coordinating state and local funds. The thrust of the effort would be opportunity through economic development with the Enterprise Zone as the catalyst. Federal funds such as CDBG, HOME, Section 8, Youthbuild, JTPA, community development banks (when created) and child services would provide the infrastructure and enhancements. One of the essential components is access to capital. CD banks is one such vehicle.

OUTLINE

The outline provided here attempts to establish a framework for such a discussion and a basis for the proposal. A community will qualify based on distressed criteria and, especially, the specific plan of action for comprehensive revitalization, with a strong emphasis on integration of current services. This approach recognizes that different communities depending upon geographic location, racial make-up, industrial base, and other factors have problems and needs unique to that area. The plans must provide the strategy for integrating services in a way which stresses self-help and tax incentives to their maximum benefit, both through community based initiatives.

Included in this outline is a proposal for targeted community lending activities -- which would address President Clinton's promise of establishing community development banks. Clearly, a community cannot sustain itself economically, if it does not have a lending network. This discussion must include making available access to basic lending services, legitimate credit services. Many distressed communities have no bank branches and residents rely on check-cashing services to cash their basic income checks. An approach must be multi-pronged -- to include CRA enforcement; basic banking laws; support for non-traditional institutions and strong GSE laws.

While the enterprise zone proposal is designed to meet the problems most profound in urban communities, the community lending activities would apply to both rural and urban communities. This proposal could be free-standing. However, we suggest that a community which receives a zone designation also receive the community lending initiative. This will dramatically increase the chance of economic independence and success.

I. Zones

A. Defined

Number: It is our sense that you start with fewer --20 -- and every two years increase this number. Two years allows time to change the Competitive rounds in such a way that reflects the successes and failures of active zones. Basically, what you have is a demonstration that graduates into a permanent program.

Size: No more than 20 square miles within no more than 3 non-contiguous areas for one zone.

Sunset

Length: The zones will benefit from the tax incentive package for ten years.

Designation: The secretary of HUD would designate the urban zones, the secretary of Agriculture the Rural zones, and the Secretary of Interior the Indian Reservation zones.

B. Selection

Applications will respond to RFPs which stress eligibility criteria -- minimum/maximum population of the city and the zone; unemployment and distressed statistics; need for community banking institutions and other criteria set forth.

Applicants will include in the application:

-- Integrated, comprehensive and innovative program which links services; jobs and community security. Communities must be given maximum flexibility to do this. A successful plan would weigh funds and services provided locally, privately, and by the state and federal government. This plan must state explicitly what mechanism will be used to assure input and participation by communities within the zone. This has not been done successfully before. A block grant may be awarded to the cities, communities to implement this plan -- it may require new offices, substantial increase in personnel, etc. Communities must account for all money requested and demonstrate use.

REVIEW -- HUD, Agriculture and Interior will be responsible for monitoring, assessing and providing technical assistance to their respective enterprise zones. It is possible to provide for a mid-term evaluation by the departments in the language. Because this proposal does provide maximum flexibility to locals, the locals must receive renewal approval by their department every two years. The department would have the option of not continuing the enhancements and block grant, if it determines the monies are not well spent. But, however, the zone will benefit from the tax package for the duration of the ten years.

-- There must be a program or strategy which provides an inventory of all community based self help organizations and resources. For example, the SBA has a program called SCORE. SCORE is a network or retired executives which offer their assistance - free of charge - to people who wish to start a small business. There are many, hundreds, of such tools. The applicant must include a data-base or clearinghouse which keeps inventory of all available resources to be easily tapped into by any community member.

-- Program to ensure rehabilitation of publicly owned buildings and program to address vacancies in multi-family and single-family properties.

-- Local lending program (see item III).

-- Strategy to include minority owned businesses in the contracting of any activities procured by any beneficiaries of the tax incentive package. Furthermore, we should consider mandating a percentage of such services from businesses within the city in which the zone is located (when available).

-- Strategy to demonstrate an active program which will develop an environment which fosters business creation --such as microenterprises--rather than simply attracting jobs. One way is through microenterprise, another is, perhaps, using universities and technology transfer activities.

II. Federal Role

A. Departmental Strike Force -- The zone legislation would establish an interagency task force. The Secretaries of Agriculture, Commerce, Education, HUD, HHS, Justice, Treasury, Transportation and other agencies would sit on the Task Force. Each departmental Secretary will have a staff person who serves on the task force and is strictly responsible for coordination from within that agency for zone responsibilities.

Therefore, a benefit of designated zones will be assistance within federal bureaucracy in coordinating current services on the local level.

B. Tax Incentives -- (to be provided).

C. Enhancements -- The enhancement package included in HR 11 would be needed. President Clinton has recommended already that many of the HR 11 targeted programs receive substantial increases in FY94 funding. The key is matching current services in such a way that an individual's needs are completely address.

???
CRIME
WELFARE REFORM

Block Grant -- The block grant could be granted to zones. It would be given with minimal restrictions - davis bacon, environmental, fair and equal employment - and for the purpose of implementing a holistic strategy.

III. Community Lending -- A Federal Action Plan

A. Increased federal support for non-traditional financial institutions

Community Development Banks
Community Development Credit Unions
Community Development Loan Funds
Micro-business development programs
Nonprofit Community Development Corporations

B. Enforcement of the 1977 Community Reinvestment Act

See 11/92 Report by Senate Housing Subcommittee

Emphasize performance over process
Tighten standards for CRA evaluations
Increase training for CRA Examiners
Enforce other anti-discriminatory laws

C. Enforcement of the 1992 GSE Reform Act

Enforce affordable housing goals
Enforce central city goals
Enforce special goals (expansion of new products)

D. Expansion of affordable housing activities of Federal Home Loan Banks

E. Enforcement of Fair Housing Act and other laws combatting mortgage discrimination

F. Increased regulation of consumer finance industry

G. Enact meaningful check-cashing/basic banking legislation

H. Consolidate/Simplify federal subsidy programs

I. Conduct oversight of insurance industry; review regulatory options.

HUD RESOURCES -- On Friday, 2-26-93, we will provide you with a complete inventory of HUD programs which would fit into an enterprise zone proposal. This will include the Office of Enterprise Zones at HUD; the Economic Development Technical Assistance program which is a $26 million annual discretionary fund for technical assistance in communities; and the 1992 Housing Act authorization of a Community Investment Corporation program to be housed at HUD. Please see attached papers on Enforcement of CRA Reform and HUD Technical Assistance awarded for FY 1993.

Community Reinvestment Act
Short Term Legislative and Administrative Agenda

This memorandum outlines a series of short-term initiatives that the Clinton Administration could take to fulfill its commitment to strengthen the Community Reinvestment Act (CRA) and at the same time provide greatly expanded resources for reinvestment in our inner cities and other areas that are starved for capital. The recommended actions would:

increase **cooperation** between the private and public sectors in order to **increase significantly access to capital** in areas that are currently underserved;

improve **implementation and enforcement of CRA and other antidiscrimination statutes** such as the Equal Credit Opportunity Act and the Fair Housing Act; and

streamline the process, thus **eliminating unnecessary paperwork.**

The Senate Housing Subcommittee has just completed a review of CRA, analyzing its effectiveness, the complaints expressed about it, and areas where improvements might be necessary. The conclusion the Subcommittee reached is that there is **no reason to change the law.** As written, the law provides adequate flexibility and guidance. What is desperately needed, however, is a strong commitment to implement and enforce the law -- a commitment that has been markedly absent in the last twelve years.

CRA is probably the most effective tool the Federal government possesses for increasing private lending. Despite the regulatory agencies' record of inconsistent and law enforcement of CRA, community organizations have had great success in forging partnerships with the private sector. In the last 15 years more than $30 billion has been committed for reinvestment in areas traditionally underserved. With clear support from the Administration, the potential resources for reinvestment in our inner cities and other capital-starved areas multiply dramatically.

The agenda described below provides an action plan for the Administration to implement the law effectively, eliminate the overemphasis on paperwork and process, and expand exponentially the partnerships between the public and private sectors.

I. Increase Cooperation Between the Private and Public Sectors

The most important step that the Clinton Administration can take is reaffirming CRA's goals, i.e., that financial institutions have an **affirmative and continuing obligation** to help meet the credit needs of the **entire** community in which they are chartered. Knowing that the Clinton Administration views CRA as a priority will provide tremendous incentives for financial institutions to increase their CRA efforts.

Recommendations:

* **Encourage stronger commitment from the agencies.** To ensure that the Administration's pledge is implemented, obtain commitments from nominees for the FDIC, the OCC and OTS to implement and enforce CRA.

* **Encourage financial institutions to initiate private agreements with community groups.** The regulatory agencies should take a more active role in monitoring and enforcing these kinds of agreements and giving greater credit in CRA evaluations.

* **State clearly the role of community development banks.** The Administration needs to state that while the Administration strongly supports community development banks, participation in them can only be considered one component of a financial institution's CRA program. Financial institutions **must not be allowed to buy out** of their CRA obligation.

II. Improve Implementation and Enforcement of CRA

President-elect Clinton has pledged to strengthen CRA. Since the law's enactment in 1977, the record of the regulatory agencies has been one of indifference and negligence. Only when Congress forced public disclosure of the CRA evaluations in 1989 as part of the Financial Institutions Recovery, Reform and Enforcement Act (FIRREA) has greater effort been made by both the regulatory agencies and the financial institutions to meet their CRA obligations. While some progress has been made, much still remains to be done.

Recommendations:

* **Emphasize Performance**

Regulators and financial institutions have focused too much attention on process rather than performance. This approach has led to excessive documentation, but more important, it has subverted the intent of CRA. Rather than concentrating on developing programs to provide loans to its entire delineated community, the financial institutions are caught up in documenting how often their officials attend CRA seminars and the number of times CRA was mentioned at a board meeting. To reorient the focus to CRA's intent --

reinvesting in the communities and neighborhoods in which the financial institution is chartered -- the following steps should be implemented:

-- Incorporate CRA into the financial institution's business strategy. As long as CRA remains a peripheral activity for the bank, the bank will perceive it as an onerous regulation imposed by Washington. Currently, many banks fail to use the data collected for CRA compliance although the information pertains directly to the bank's business, i.e., market penetration, success of marketing efforts, market opportunities. To encourage greater integration of CRA, regulators should evaluate financial institutions' efforts to incorporate CRA into their business strategy and include this assessment in the institution's rating for CRA compliance.

-- Clarify CRA's goals to ensure distinction between CRA and charitable activities. Clearer understanding of CRA's goals will help to streamline the process and eliminate marginal activities. Regulators must also insist on a precise definition of what constitutes appropriate activity by the financial institution to ascertain the community's credit needs. Normal business and social activities will not suffice.

-- Implement the guidelines issued by the Federal Financial Institutions Examination Council (FFIEC), particularly those pertaining to necessary documentation, pertinent data, antidiscrimination and fair lending. Many of the current complaints about paper work could be resolved if the financial institutions and the regulators would implement existing guidelines. For example, as a matter of policy, all the regulatory agencies can and do distinguish between the capacity of small and large banks to produce documentation. New guidelines were issued this year to clarify what is required documentation.

*** Tighten Standards for CRA Evaluations**

-- All the regulatory agencies' CRA evaluations reflect severe grade inflation. Currently, 89 percent of all financial institutions received a satisfactory or outstanding rating. The disparity between the capital-starved communities that exist in virtually every metropolitan area and many rural areas and the ratings provided by the regulatory agencies for meeting those same credit needs indicates that the rating system is badly skewed. Failure by the regulators to distinguish between those institutions that actually are meeting their CRA obligations successfully and those that are not undermines faith in the system and deprives the financial institutions and the communities they serve of a consistent and fair means of assessing the institutions' performance. Thus, the regulatory agencies need to impose more stringent standards on the CRA compliance evaluations.

-- The CRA evaluation is the basic mechanism for enforcing CRA. The quality of current CRA evaluations, however, range from excellent to unacceptable. All the agencies need to fulfill the requirements of FIRREA and the Federal Deposit Insurance Corporation Improvement Act (FDICIA) to provide the relevant facts and data that support the conclusions of the CRA evaluations. In addition, the agencies need to train their examiners to provide cogent analysis. Finally, the agencies need to be willing to take much stronger enforcement action against those institutions that do not meet their CRA obligations.

-- Currently, the regulatory agencies rely too heavily on information provided by the financial institutions. Examiners can contact community organizations to verify the information, but often whether they do is discretionary. In order to provide a better perspective on the credit needs of the community and how well the financial institution is meeting those needs, input from local community groups should be required for every CRA evaluation.

-- Regulatory agencies have been far too reluctant to impose penalties for non-compliance with CRA requirements. Thus, non-performing institutions have little incentive to improve. The regulatory agencies must be more willing to make use of existing tools available to them, including cease and desist orders.

* **Improve and Increase Training for CRA Examiners**

-- Review of CRA evaluations demonstrates that there often is a fundamental lack of understanding by the examiners of CRA's purpose and goals. As noted, poorly trained examiners cannot provide the appropriate analysis. Further, a poorly trained examiner is more likely to fail to distinguish between necessary and unnecessary data, making the process more difficult for the financial institution. It is essential that CRA examiners receive more thorough and extensive training.

* **Ensure Adequate and Accurate Data/Improve Accessibility**

-- The Home Mortgage Disclosure Act (HMDA) is one of the principal tools for analyzing a financial institution's record of CRA compliance. The data, however, frequently are not recorded properly and the regulatory agencies have been reluctant to ensure that the data are accurate. Thus, the data base may not properly reflect the actual lending performance. This is detrimental to the financial institution as well as to the communities it serves. The regulatory agencies must improve their oversight of HMDA data collection.

-- Community groups have played an instrumental role in the successes of CRA, yet their access to information and data often is limited. The HMDA data are provided in a format that is prohibitively expensive for most organizations and often they can only obtain it months after data have been collected. The agencies should provide HMDA data in a timely format at a more reasonable cost.

-- Access to the public CRA evaluations is also limited. Instituting an 800 number, similar to the one available for call reports, would greatly alleviate this problem.

-- The regulatory agencies need to devise better methodologies for determining whether financial institutions are meeting their CRA obligations in rural communities. Emphasis has been almost exclusively on urban areas, but CRA pertains to all communities. The Subcommittee's review reveals that there is insufficient data on how the credit needs of rural communities are being met. The Subcommittee's report uncovered instances where entire rural communities have effectively been redlined, but none of the financial institutions in the area were held accountable by the regulatory agencies, indicating a severe bias on the part of the institutions <u>and</u> the regulators.

*** Enforce CRA and Other Antidiscriminatory Laws**

There is an important linkage between CRA and the Fair Housing Act and the Equal Credit Opportunity Act. Examination of the CRA evaluations revealed that even when the examiners made the connection, they or their supervisors failed to take appropriate action to enforce the antidiscriminatory laws. Steps to take to improve enforcement include:

-- The Department of Justice developed a model in its case against Decatur Federal Savings and Loan in Atlanta to use in other similar instances of apparent violations of the Fair Housing Act and the Equal Credit Opportunity Act (ECOA). The Clinton Department of Justice should use this model to pursue such cases aggressively. It would signal to the financial institutions the importance of meeting their CRA obligations. (With improved standards in evaluating CRA, financial institutions that are meeting their CRA obligations should receive clear indications as to whether they are in violation of other antidiscriminatory laws.)

-- Congress has required that patterns or instances where there is reason to believe that discrimination exists under ECOA must be referred to the Department of Justice. The Clinton Administration must ensure that regulatory agencies adhere to the law.

III. Eliminate Unnecessary Paperwork

The criticism leveled at CRA pertains exclusively to the process. Implementation of the recommendations listed under I and II will significantly improve the process by reducing the paperwork, and make the process more predictable and reliable. Among the most pertinent steps to take are:

-- emphasize performance over process, and

-- integration of CRA into the bank's business strategy,

-- implementation of the Congressionally-mandated changes of FIRREA and FDICIA and the subsequent FFIEC guidelines.

Status of Economic Development TA Funding
as of 1/5/93

A. Sources of Funds

1. $14 million of Technical Assistance funds was earmarked for economic development activities by the Conference Report on the HUD Appropriations Act for FY 1991. The specific project areas to be funded were defined in CPD's Technical Assistance Strategy for FY 1991-1992, approved by the Secretary in May 1991.

2. An additional $12.1 million was made available during FY 1992 from recaptured UDAG funds for **Technical Assistance To Empower Low-Income Residents, Especially in Riot-Damaged Areas of Los Angeles and in Connection With Enterprise Zones.** (Per Frank Keating's May 8, 1992 memorandum to Randall Erben)

3. <u>Total Currently Available - $26.1 million</u>

B. Uses of Funds

1. <u>The original $14 million:</u>

$ 1,000,000	-	transferred to HHS, 9/91.
1,474,069	-	3 IQC Task Orders, 9/92.
475,000	-	West Dallas cooperative agreement, 9/92.
1,484,849	-	Securitization contract, 9/92.
500,000	-	Colonias contract, 9/92.
2,000,000	-	Resident Self-Employment grants, 9/92.
500,000	-	added to MBE contract, 9/92.
1,483,169	-	Youth Self-Employment grants, 11/92.
<u>995,670</u>	-	CDC contract, 1/93.
$ 9,912,757	-	total announced to date out of the $14 million
$ <u>2,500,000</u>	-	pending for Empowerment coop. agreement(s)
$12,412,757	-	total announced and pending award
$ 1,587,243	-	remaining for three projects on hold (Clearinghouse, Creative Financing and TA for Self-Employment winners)

2. <u>The additional $12.1 million:</u>

$ 4,000,000	-	LA County grants, 9/92.
6,248,133	-	Other Entitlement grants, 9/92 and 10/92.
<u>1,306,667</u>	-	State grants, 9/92.
$11,554,800	-	total announced to date out of the $12.1
$ <u>545,200</u>	-	pending for two additional Entitlement grants.
$12,100,000	-	total announced and pending award

① Reg. d cc of 1st four pgs.
CWR

② Bruce

Pls. look at this together, let Howard know which of you to contact for response prep. assistance. Keep me posted.
Thanks.

THE WHITE HOUSE
WASHINGTON

DATE: 02/18/93

NOTE FOR:

HOWARD PASTER
ROBERT RUBIN
CAROL RASCO

The President has reviewed the attached, and it is forwarded to you for your:

Information ☐

Action ☒X

Howard, Please prepare a response coordinating with Carol Rasco and Bob Rubin.

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

To [illegible]
Bo Cutter

Can we incorporate this in our plans? This is a good person & v. important to me — let me know —

MAXINE WATERS
MEMBER OF CONGRESS
35TH DISTRICT, CALIFORNIA

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
VETERANS' AFFAIRS

Congress of the United States
House of Representatives
Washington, DC 20515-0535

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February 16, 1993

President Bill Clinton
The White House
1600 Pennsylvania Ave., NW
Washington, D.C.

Dear Mr. President:

I plan to introduce the Waters "Urban Youth and Young Adult Empowerment Initiative" this week. This four bill package is an integrated, comprehensive set of programs designed to give inner city young people a fair chance to empower themselves.

In particular, I would like to call your attention to two specific pieces of legislation which comprise the most significant components in my program. Both bills are relevant to the economic stimulus package that you will discuss this week and Congress will consider soon.

First, the "Neighborhood Infrastructure Improvement and Inner City Job Creation Act" takes the idea of repairing infrastructure and assures that the economic benefit to be derived both in terms of jobs <u>and</u> the placement of the physical improvements reaches inner cities. Too often, infrastructure jobs employ only semi- or highly skilled workers in specific crafts. My legislation targets high poverty areas for more modest physical improvements and beautification, and would employ workers who do not necessarily know a trade or even have previous work experience. This is a crucial component of any economic stimulus strategy.

Second, I have included the "Job and Life Skills Improvement Act." This bill is based on a job training program that was contained in <u>the urban aid bill, passed by both Chambers and vetoed last year</u>. It was the only newly authorized program contained in that legislation. This program is a stipend-based, comprehensive service training program which serves people aged 14 - 30 years of age. As you know from touring the Maxine Waters Employment Preparation Center last year, there is an incredible demand for this approach to job training. Moreover, by earning a wage, participants could afford to learn a skill. Stipends are an integral element of any broad-based training program for poor communities.

President Clinton
Page 2

I would hope you would seriously consider working these two bills into the proposal you will offer Congress next week. They are both absolutely necessary parts of a program to include poor people and unskilled workers in a program of national economic renewal. I look forward to working with you in the near future to solve these most difficult problems.

Sincerely,

Maxine Waters

MAXINE WATERS

MW/bz

103D CONGRESS
1ST SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

Ms. WATERS introduced the following bill: which was referred to the Committee on ____________

A BILL

To provide grants to cities to establish teen resource and education centers to provide education, employment, recreation, social, and cultural awareness assistance to at-risk youth.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Teen Resource and Education Centers Act of 1993".

SEC. 2. GRANTS TO CITIES TO PROVIDE EDUCATION, EMPLOYMENT, RECREATION, SOCIAL, AND CULTURAL AWARENESS ASSISTANCE TO AT-RISK YOUTH.

The Secretary of Health and Human Services, in consultation with the Secretary of Education, shall, from amounts appropriated under section 10, provide grants to not more than 10 selected cities for the purpose of assisting such cities in establishing and operating teen resource and education centers in such cities to provide education, employment, recreation, social, and cultural awareness assistance to at-risk youth.

SEC. 3. APPLICATION.

To receive a grant under section 2, a city shall submit to the Secretary an application in such form and containing such information as the Secretary may require.

SEC. 4. TEEN RESOURCE AND EDUCATION CENTERS.

The Secretary may not make a grant under section 2 to a city unless the city agrees that it will use all amounts received from such grant to establish and operate, in conjunction with local social service agencies, at least 2 teen resource and education centers in such city to provide education, employment, recreation, social, and cultural awareness assistance to at-risk youth. A teen resource and education center established and operated using amounts from a grant under section 2 shall, at a minimum, meet the following requirements:

(1) EDUCATIONAL ASSISTANCE.—The teen resource and education center shall provide educational assistance to at-risk youth for the purpose of—

(A) providing information on institutions of higher education to at-risk youth interested in attending such institutions;

(B) establishing a scholarship search and resource program at the center to provide assistance to such youth in the preparation of financial aid applications, scholarship applications, and other relevant forms and applications; and

(C) establishing and carrying out preparatory courses for high school equivalency examinations and college entrance examinations at the center.

(2) EMPLOYMENT AND SKILLS TRAINING ASSISTANCE.—The teen resource and education center shall provide employment and skills training assistance to at-risk youth by hiring teen peer counselors to—

(A) provide training to such youth in basic job skills, including interviewing, personal appearance, and communication with coworkers and superiors;

(B) provide job referral services to such youth; and

(C) establish job banks for such youth by providing listings of job openings in local businesses.

(3) RECREATIONAL OPPORTUNITIES.—The teen resource and education center shall provide recreational opportunities for at-risk youth by—

(A) establishing sports teams for such youth and seeking financial support or sponsorship of such teams from local businesses;

(B) establishing a garden at such center to give such youth a chance to work together to achieve positive results from their efforts and to distribute the food harvested from such garden to the families of such youth and to neighborhood soup kitchens; and

(C) establishing and carrying out a reading program to introduce such youth to the importance of reading.

(4) DEVELOPMENT OF SOCIAL SKILLS.—The teen resource and education center shall provide for the development of the social skills of at-risk youth by—

(A) hiring adult counselors and providing support groups at such center for the purpose of counseling such youth on social and personal issues, including issues relating to—

(i) problems facing young minorities;

(ii) teen-age pregnancy, including pregnancy prevention and pregnancy management;

(iii) unemployment;

(iv) crime; and

(v) sex education, including education relating to acquired immune deficiency syndrome (AIDS); and

(B) sponsoring trips for such youth to museums, State capitals, concerts, plays, and other cultural and educational settings and events.

(5) CULTURAL AWARENESS.—The teen resource and education center shall assist in raising the cultural awareness of at-risk youth by—

(A) establishing and carrying out classes on the history and culture of African-Americans, Hispanics, and other cultural groups to supplement courses taught in elementary and secondary schools and to bolster the social and personal self-esteem and pride of such youth; and

(B) encouraging such youth to produce plays, stories, and artwork that reflect their cultural heritage and pride.

(6) FINANCIAL ASSISTANCE TO COLLEGE GRADUATES WORKING AT TEEN RESOURCE AND EDUCATION CENTERS.—

(A) IN GENERAL.—The teen resource and education center shall provide financial assistance from amounts received from a grant under section 2 to graduates of institutions of higher education who work full-time at such center for the purpose of assisting such graduates to repay student loans obtained by such graduates to attend such schools.

(B) AMOUNT OF ASSISTANCE.—The center may provide financial assistance under subparagraph (A) in an amount equal to not more than 25 percent of the total amount owed by a graduate during any year that such graduate is working at such center for the repayment of student loans of such graduate. Such assistance may be provided to a graduate for up to 4 years that such graduate is working at such center.

SEC. 5. CITY REPORT.

The Secretary may not make a grant under section 2 to a city unless the city agrees that it will submit, for any fiscal year in which such city receives a grant under such section, a report to the Secretary describing the use of such grant, including—

(1) the number of at-risk youth receiving assistance at each teen resource and education center established in such city under section 4;

(2) the types of services and referrals received by such at-risk youth; and

(3) any other information the Secretary determines to be appropriate.

SEC. 6. SELECTION.

(a) IN GENERAL.—The Secretary shall select cities to receive grants under section 2 which have a large number of at-risk youth.

(b) GEOGRAPHIC DIVERSITY.—To the extent practicable, the Secretary shall make grants to cities under section 2 in a manner which will equitably distribute such grants among the various regions of the United States.

SEC. 7. ALLOCATION.

The Secretary may not make a grant under section 2 in a fiscal year to any city in an amount totaling more than 10 percent of amounts appropriated under section 10 for that fiscal year.

SEC. 8. REPORTS.

(a) INTERIM REPORT.—Not later than January 1, 1995, the Secretary shall submit to the Congress an interim report containing—

(1) a compilation of the information contained in the city reports received by the Secretary pursuant to section 5; and

(2) a process evaluation of the effectiveness of the grant program.

(b) FINAL REPORT.—Not later than January 1, 1996, the Secretary shall submit to the Congress a final report containing the information described in subsection (a).

SEC. 9. DEFINITIONS.

For purposes of this Act, the following definitions apply:

(1) AT-RISK YOUTH.—The term "at-risk youth" means individuals who have attained the age of 10 but have not attained the age of 22 and who live in a city in which—

(A) drug and gang activity, or other violent community activity, are prevalent;

(B) a large number of youth are unlikely to complete an elementary or secondary education;

(C) a large number of youth are runaway or homeless youth;

(D) a large number of individuals receive public assistance; and

(E) a large number of individuals are single parents.

(2) INSTITUTION OF HIGHER EDUCATION.—The term "institution of higher education" has the meaning given such term under section 1201(a) of the Higher Education Act of 1965.

(3) SECRETARY.—The term "Secretary" means the Secretary of Health and Human Services.

SEC. 10. AUTHORIZATION OF APPROPRIATIONS.

(a) IN GENERAL.—There is authorized to be appropriated $350,000,000 for each of the fiscal years 1994 and 1995 to carry out section 2.

(b) AVAILABILITY.—Amounts appropriated under subsection (a) shall remain available until expended.

103D CONGRESS
1ST SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

Ms. WATERS introduced the following bill; which was referred to the Committee on ______________

A BILL

To provide employment opportunities to unemployed individuals in high unemployment areas in programs to repair and renovate essential community facilities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Neighborhood Infrastructure Improvement and Inner City Job Creation Act".

SEC. 2. ESTABLISHMENT OF GRANT PROGRAM.

The Secretary of Labor (in this Act referred to as the "Secretary") shall provide grants to eligible administrative entities described in section 3(a) for the purpose of establishing and carrying out programs that provide employment opportunities to unemployed individuals through payments for labor and related costs associated with the repair and renovation of essential community facilities.

SEC. 3. ELIGIBLE ADMINISTRATIVE ENTITIES.

(a) IN GENERAL.—An administrative entity shall be eligible to receive a grant under section 2 if the entity is—

(1) a private industry council (described under section 102 of the Job Training Partnership Act (29 U.S.C. 1512)),

(2) a unit of general local government,

(3) a nonprofit private organization, or

(4) in the case of a grant involving a Native American Indian tribe or Alaska Native Village, a grantee designated under subsection (c) or (d) of section 401 of the Job Training Partnership Act, or a consortium of such grantees and the State,

that serves 1 or more eligible jurisdictions described under subsection (b).

(b) ELIGIBLE JURISDICTION.—An eligible jurisdiction described under this subsection is an area which has a poverty rate in excess of 30 percent and which is—

(1) a unit of general local government which has a population of 50,000 or more individuals; or

(2) a Native American Indian tribe, band, or group located on a Federal or State reservation, the Oklahoma Indians, and any Alaska Native village or group as defined in the Alaska Native Claims Settlement Act, having a governing body.

(c) PRIORITY.—In selecting administrative entities described in subsection (a) to receive a grant under section 2, priority shall be given to administrative entities that give assurances to the Secretary in the application submitted under section 4 that such entities will give priority to individuals who are low-skilled workers in selecting individuals to participate in programs established and carried out by such entities under section 5(a).

SEC. 4. APPLICATION.

The Secretary may not make a grant under section 2 to an eligible administrative entity unless the entity submits to the Secretary an application in such form and containing such information as the Secretary may require.

SEC. 5. USE OF AMOUNTS.

(a) IN GENERAL.—Except as provided in subsection (b), the Secretary may not make a grant under section 2 to an eligible administrative entity unless the entity agrees that it will use all amounts received from such grant to establish and carry out a program to provide wages and related employment benefits to eligible individuals described in subsections (a) and (b) of section 6 for the purpose of employing such individuals to repair and renovate essential community facilities that are located within the eligible jurisdiction that the entity serves, including—

(1) painting bridges;

(2) repairing and renovating public buildings and other community facilities, including public libraries;

(3) repairing and renovating public housing units;

(4) repairing water systems and water development projects;

(5) erecting or replacing traffic control signs and removing road sign obstructions;

(6) replacing school crossing, intersection, and other road surface markings;

(7) repairing roads and streets;

(8) repairing and renovating parks and playgrounds;

(9) installing and repairing drainage pipes and catch basins in areas subject to flooding;

(10) installing graded ramps for individuals with disabilities; and

(11) weatherizing community facilities and carrying out other energy conservation activities.

(b) ADMINISTRATIVE COSTS.—Not more than 25 percent of amounts received from a grant under section 2 for any fiscal year may be used for the cost of administration and the acquisition of supplies, tools, and other equipment.

SEC. 6. ELIGIBLE INDIVIDUALS.

(a) IN GENERAL.—An individual shall be eligible to participate in a program described in section 5(a) only if the individual—

(1) is an unemployed individual at the time of enrollment in such program;

(2) has been unemployed, at a minimum, for the duration of the 15-week period immediately preceding the date of such enrollment; and

(3) has made a good-faith attempt to obtain employment during such 15-week period.

(b) ADDITIONAL REQUIREMENT FOR SECONDARY SCHOOL-AGE INDIVIDUALS.—

(1) IN GENERAL.—In addition to meeting the requirements described in subsection (a), a secondary school-age individual shall be eligible to participate in a program described in section 5(a) only if the individual has not attended a secondary school

for any part of the 6-month period immediately preceding the date of enrollment in such program.

(2) SECONDARY SCHOOL-AGE INDIVIDUAL DEFINED.—For purposes of paragraph (1), the term "secondary school-age individual" means an individual who has attained the age of 16 but has not attained the age of 20.

(c) PRIORITY.—In selecting individuals described in subsections (a) and (b) to participate in a program described in section 5(a), priority shall be given to the individuals who, at the time of selection to the program, have exhausted or are otherwise not eligible for unemployment insurance benefits, particularly those individuals who have been unemployed for the longest periods of time preceding the date of their selection to the program.

SEC. 7. NONDISCRIMINATION.

No individual shall be excluded from participation in, denied the benefits of, subjected to discrimination under, or denied employment in the administration of or in connection with any program described in section 5(a) because of race, color, religion, sex, national origin, age, disability, or political affiliation or belief.

SEC. 8. LABOR STANDARDS.

The labor standards described under section 143 of the Job Training Partnership Act (29 U.S.C. 1553) shall apply for purposes of a program established under section 5(a).

SEC. 9. MAINTENANCE OF EXPENDITURES.

The Secretary may not make a grant under section 2 to an eligible administrative entity unless the entity agrees that it will maintain its aggregate expenditures from all other sources for employing individuals to repair and renovate essential community facilities at or above the average level of such expenditures in the 2 fiscal years preceding the date on which the entity submits an application under section 4 to the Secretary.

SEC. 10. REPORT.

The Secretary may not make a grant under section 2 to an eligible administrative entity unless the entity agrees that it will submit, for any fiscal year in which the entity receives a grant under such section, a report to the Secretary describing the use of such grant and any other information the Secretary determines to be appropriate.

SEC. 11. AUTHORIZATION OF APPROPRIATIONS.

(a) IN GENERAL.—There is authorized to be appropriated to carry out section 2 $5,000,000,000 for fiscal year 1994 and such sums as may be necessary for each succeeding fiscal year.

(b) AVAILABILITY.—Funds authorized to be appropriated under subsection (a) shall remain available until expended.

THE WHITE HOUSE

WASHINGTON

February 21, 1993

DRAFT

MEMORANDUM FOR GENE SPERLING AND BRUCE REED

FROM: PAUL DIMOND

SUBJECT: A PLACE CALLED HOPE

I. OVERVIEW

We need to develop a central theme for urban and rural economic and community development that builds on the powerful message of the President's new direction. This theme may be a phrase or an acronym. But it should be direct, short, and speak American.

Capturing the right rhetoric is important for at least two reasons:

*to help carry the message of the plan, and the potential of its various components, to the people

*to help us shape the plan by disciplining us to ask the right, hard questions in considering whether to include, redirect, cut back, expand or initiate alternative components.

II. BACKGROUND

Urban economic and community development has been a graveyard for liberal Democrats for decades. Previous place-based, urban programs have consumed much public treasure and many political careers for little return. Prior programs have been overwhelmed by the market, economic, demographic and, yes, discrimination forces at work. We would be foolish to attempt to boil the ocean to turn these sweeping tides cascading through metropolitan America. And the sweep of the tides surely has been at least as powerful in rural America: during the industrial era of the old economy and the modern advances in farm productivity, tens of millions of Americans migrated from rural farms and towns to urban, suburban and exurban America.

The President's new direction promises that we will work smarter: to help all Americans learn new ways to ride <u>with</u> the changing tides <u>and</u> <u>with</u> the important undercurrents that are and will be at work in the new economy ahead. And we have to play the hand that we have been dealt, and play it as best we can. As just one example, this means that our plan must not be, and can not be perceived as, a zero sum game pitting different places or racial groups against one another. We don't need urban vs. suburban or black vs white or Hispanic- or Korean- vs. African-American.

The basic issue for your consideration is how to speak and, thereby act American in the most powerful sense of the President's message.

I don't have a proposal for a better banner than the diverse phrases used in the campaign, the inauguration, or the economic message and the plan for a new direction. I don't have one pat phrase yet.

Instead, I ask you listen to the discussion which follows in Part IV of this memorandum with a different ear. While reading the memo, I ask you to hear the President's personal story that resonates with all Americans: remember a "<u>place</u> called <u>hope</u>."

The power of this message can start with a hand-up--not a hand-out--for our fellow Americans, particularly if we begin in rhetorical terms with the poorest child in a rural place and thereafter move to include the poorest family in the most distressed urban place.

All Americans know that we will all gain if the most disaffected persons in the most distressed places are provided with the opportunity--and required to step up to the responsibility--to become contributing members of a new direction for America. In fact, we now all know it in the deepest and most visible way: the person and the message that is <u>every</u> American's President, every day, for the next eight years.

III. QUESTION PRESENTED

Does a "place called Hope" offer a way to talk about--and to think and act on--a bold, new plan? Consistent with the President's Economic Message to Congress, the plan might be called, "A New Direction for America: A Call for Hope in Every Place." Will the rhetoric of "hope" and "place" resonate with all Americans? Will it work to convey the twin messages: to empower poor persons to participate in the new economy and to empower all Americans to help rebuild distressed urban and rural places?

IV. DISCUSSION

I divide the discussion into three parts: 1) the challenge in the hand we've been dealt; 2) ways that the President's main themes may help us shape the components of a workable plan; 3) the limits and potential of the current phrases to capture the central message.

A. The Hand We've Been Dealt

Cards in the urban or metropolitan hand include:

*The migration of persons and jobs out of urban cores to expanding suburban and exurban rings has occurred as the old industrial economy advanced throughout the world. This tide is not unique to America. Reasons for this out-migration include the urge to find a better single family home in a better neighborhood with better schools (which are financed in this country by such inequitable state systems of local taxation as to make for a series of publicly supported, but virtually private school districts, where the price of tuition is the cost and location of a home); the need for larger blocks of land outside central cities as the means of production shifted to long, single-story lines of mass production; federal and state support for an interstate and metropolitan system of roads; and firms and jobs moving to locate where the people are moving.

*Racial Discrimination initially divided and thereby further propelled this largely whites-only tide in America. From the start FHA, VA, and Public Housing was run on an exclusively white or dual basis, financing whites only for single-family homes and building blacks-only public and subsidized, multi-family housing in black areas and whites-only multi-family housing in white areas. Racial discrimination still mars the market: for example, in 1990 upper income African-Americans were rejected more frequently than low- and moderate-income white Americans for home mortgage loans. The tide of out-migration has for too long been divided by a process of neighborhood succession, disinvestment, discrimination and racial ghettoization.

*As upwardly mobile minorities join the outward migration, many central city residential areas and some older suburbs remain occupied primarily by low- and moderate-income minorities, the homeless, the disaffected or other elderly whites who do not have the wherewithal to move. Single, female-headed households with no support from fathers either live off of a welfare hand-out or remain poor working full-time in service jobs. Depending on the extent of the new in-migration of non-black minorities (Hispanic- and Asian-Americans) in particular regions, many areas of the older central cities (outside of California, Texas, and Florida) have <u>lost</u> substantial population over the past thirty years.

*Home mortgage, small business, and consumer lending and banking simply pass by many persons in many distressed areas in central cities and some older suburbs. We can wring out some of the discrimination through enforcing existing anti-discrimination law. But we can create a much broader cross-current only through innovative and powerful approaches that use carrots and sticks to make the market work better for all Americans. Instead of offering such a hand-up, however, our financial and housing markets now give minorities and most people in distressed places the back of the hand.

*The magnets for the earlier mass migrations from the farms and across the oceans to the central cities during the height of the industrial economy have largely vanished: the city is no longer the auction place for the low-skilled industrial/trade/service jobs. Such jobs for the old industrial economy, as well as the low-skill service jobs in our current economy in transition, are located in the expanding suburban and even exurban rings where a majority of the people now live. As a result of this rational, market-driven migration of firms and people, the average commuting times in the U.S. are less than one-half of those in Japan, for example. But this also means that getting inner city youth, and their parents, to suburban jobs may require rethinking urban mass transit.

*Some of the financial, medical, legal, accounting and major University and cultural segments of the current economy in transition can be--and still are--located in identified downtown districts. Offices and stadiums are located both in central districts and in increasing numbers of expanding suburban commercial and office nodes. In many metropolitan areas, the existing vacant office supply is sufficient to meet the projected demand well into the next century.

*Although some central cities maintain major retail centers in downtown districts and even service stores in many neighborhoods, the bulk of both have followed where the majority of people now live, outside central cities. Indeed, in too many distressed places in urban cores, the most profitable small businesses are gun shops, liquor stores, pawn shops and other alternative check-cashing outlets, and illegal drug traffic.

*With the possible exception of the new means of heavy production of cars and planes, for example, the production means and jobs of the new economy (including information, knowledge, transaction, research, etc.) could be located in central cities, suburbs, exurbs and, to an increasing extent, in rural areas. Even the heaviest modern production plants can be located in a distressed urban core, if the land can be assembled and cleaned-up and if there is the will: witness Chrysler's new Jefferson Avenue plant in Detroit. But these are the exception, and Chrysler's move of its headquarters and design facility of the future out of the inner city to an exurban area on the outer ring is the more common example. Green fields and suburban housing have more appeal even to Lee Iacocca, and his mangers and designers of the future, than the decay, blight, and crime of

Highland Park in the center of Detroit.

*The firms of the new economy, and the increasing numbers of very mobile, symbolic analysts who are no longer effectively tied to any firm, can effectively work and produce in urban, suburban, exurban, and even in rural places. Where they will locate, therefore, is not dictated by the restraints of the past. But it would be a mistake to ignore their continuing relevance or the current results cast in the concrete, the fabric, the firms, the skills and the cultures of the quite different kinds of places within and between metropolitan areas throughout America.

*There are large variations specific to each metropolitan area within the tides that sweep across the country. There are substantial eddies and even significant cross-currents and backflows in many locales. Even in the most distressed places, there are many, many individuals, schools, churches, community groups, and small enterprises working hard to make a difference in their own lives and those of their families, friends, and neighbors. We must embrace the local variation, and we should not attempt to direct, by command and control, any grand program of social engineering from Washington, D.C., for any place. Individual market decisions, personal location choices and the private sector will carry the day in every place.

*It is within local places throughout the country where this hand--and much of the new economy--will ultimately be played.

*Our goal, therefore, should be to chart the tides and to steer a course that will empower all Americans in all places to contribute to a more prosperous future. We must do so in a way that will be entirely cost efficient with public and private dollars. The plan must build on markets and encourage diverse national, regional, state and local public-private coalitions and leverage. We must establish at the outset the process and the rhetoric to permit necessary mid-course corrections as we go and the many tacks that will enable all Americans to sail in a new direction.

*The focus should be on jobs, good jobs, but jobs.

*As with the new economy, we must empower a broad range of actors to set sail in a new direction, to find their own ways to participate in the new economy and to rebuild distressed places in urban and rural areas. No massive federal galleon can be built in which we ask the American people all to climb on board and place their backs to one federally commanded goal and then row blindly by brute manual strength: that old, wood behemoth will go down faster than its modern day equivalent, the

Titanic, in the rough seas ahead. Instead, we have a President who can spread a broad beacon of light across the surging tides to empower all Americans to build, to band together in smaller crews, and to sail many, many smaller, agile, high tech-ships of the future on new voyages of discovery, whatever their current place.

B. The Relevant Presidential Themes

The President's main themes for such a new direction fall into several categories:

*Individual opportunity and personal responsibility, investing not consuming, rewarding work--e.g., a hand-up rather than a hand out; each of us must be an engine of growth and change; end welfare as we know it, with training and a requirement to work once trained; demand that all absent parents take responsibility for providing support for their children; assure that all full-time workers make enough so that their families will no longer be poor

*reinventing government, and empowerment not entitlement--e.g., steering not commanding; offering hope and a hand, not a cure-all and a command; placing bets on individuals and groups in the marketplaces where they are, not on any bureaucracy where the people to be served aren't; leveraging federal resources with state, local and private cooperation and support; making markets work for a new direction rather than trying to command a different order; some things work and other things don't; start small, and if it works, expand, through a transition to private capital, government-sponsored enterprise, state-local-private partnership; if it doesn't work, redirect or stop and try something else; in the end, we want more and more people not to need [even the federal government's hand-up] anymore

*community and family, life-long learning, faith--e.g., investing in expectant mothers' nourishment, young children, better learning [can we add more, smarter, faster, cheaper, and actively, with and of the information/knowledge age, too?], youth apprenticeship, national service, worker retraining, life-long learning; Brady bill and 100,000 new police on the street in the community; [how does the "community" message ring out so that it offers support not exclusion and avoids group v. group battles? what is the nature and scope of "community" that is meant? we may want to look at John Gardner's recent address on this for some ways of speaking and thinking]; it's not what's in it for me, but what's in it for us; there is no them, there is only us

*new, global economy--e.g., information/knowledge age, research and development, etc. [determine how to avoid cutting urban cores or distressed rural areas off from these building blocks for the economy of the future]

*it's the economy, stupid--e.g., if we have a disaffected group of poor families isolated from the new economy, we're all going to be worse off; if we have distressed places within our urban and rural areas, each of these local economies will be worse off; we can't afford to waste any person or any place if we are going to compete successfully in the new global economy that is taking shape before our eyes; [small business, infrastructure, environmental clean-up]; jobs, jobs, jobs; the more people who have jobs, particularly jobs that will increase our ability to compete in the global economy, the greater prosperity for all of us and all of our children, and all of our children's children, in the years ahead

C. <u>Current Phrases</u>

"Urban and rural economic and community development" sounds like "tax and spend" liberal failure. It brings back memories of Urban Renewal or Model Cities. Its turgid, too long, and doesn't say anything positive to most Americans. "Locational Economics" (the tentative name used internally for our work in NEC) is as uninspiring as its counterpart, "human capital". They are too fancy and too academic to speak American.

"Investing in communities" or "empowering communities" both have some potential. But they also run risks. The first may sound too much like a three-piece suit, big banker's special; and playing the hand we've been dealt requires more than "investing" dollars. The second may kindle fears among many suburbanites, blue collar and city workers, and unions of by-gone confrontations arising during "Black power" and "community control" movements. Even the recent, bi-partisan initiative of the Detroit School Board to vest authority in the faculties of individual schools was thwarted by a bitter, four-week teacher's strike: the banner of "empowerment" was viewed by the unions as too much of a threat (of what? accountability? control by parents from each school community?). The teachers rejected any such notions of "full freedom" from central bureaucracy and "taking responsibility" for the destiny of each school: they organized to defeat three of the four "Empowerment" supporters in the November election. [The current school-based "empowerment" experiments in Chicago and some places in New York, Philadlephia, and other urban schools do offer hope for the meaning if not the term, "empowerment."]

"Empowerment" standing alone has some raw political appeal, of course, if it serves to preempt Kemp. When tied to community, however, there is a greater risk that the perception (and the message) could be subverted into a group vs. group or place vs.

place battle for scarce resources rather than a plan for promoting opportunity for all that will increase prosperity for everyone in the new economy.

All of these problems led me to try out some real pablum, something like "Rebuilding America: Empowering People to Invest in our Communities" or "Empowering People to Rebuild America's Communities". But these phrase don't capture for me the reach, and personal commitment and inspiration, of the President's new direction. It is also possible, of course, that only the President's personal speaking can infuse any phrase with the full measure of his message.

IV. CONCLUSION

Listen to the President's voice, again, "A Place Called Hope," as the story, the symbol and personal commitment of the President.

Think about starting with a distressed rural area in Appalachia with a woman's cooperative, funded by loans from a CD bank and, at the CD bank's urging, the local bank to make crafts. A worker-owned business has grown into a thriving enterprise.

Proceed to the son of a hard-working farmer in Alabama (or Iowa or Oklahoma) who finally had to sell the family farm because he couldn't make ends meet, earned a College degree in journalism and communication with an income continent loan, and joined the National Service for two years. He then returns to his roots near his home to participate in the new knowledge age by writing a column, already syndicated in thirty papers nation-wide. This son of the rural land also shares his insights, skills, and humor for a fee with a national network of rural enthusiasts on an interactive, electronic forum. He is building interactive, multi-media learning programs with several partners around the country and tests them for free with the teachers, children, and families in the area. He has received an equity position in a community-owned enterprise, funded by the CD network's regional venture fund, that is seeking to enhance its local grain/animal market by creating on-line a regional, network auction.

Roll ahead a couple of years to a community-based education and training center in a blighted urban place in Newark (or the South Bronx or Philadelphia) that succeeds, with one-stop career shopping under DOL's new initiative, to get increasing numbers of drop-outs in the inner city onto the career ladder with training, both for entry-level service and high-tech jobs. This youth and worker training center is called, "Focus HOPE." It works in partnership and for a fee with many businesses throughout the metropolitan area, with additional capital lent by the major regional banks for its expansion. Because Focus Hope provides active learning for all who participate to meet high standards, its graduates can all demonstrate their capacity to know and to be able to do what the National Learning Standards recommend: to learn how to learn for a lifetime. And this is no idle promise: Hope's graduates can not only begin work at a meaningful job, but they can advance or change careers several times as the years go by; and, they can participate in additional education and training financed by twenty-five year, income contingent loans provided by a new government-sponsored enterprise, UPLifT (Universal Personal Lifetime learning Trust). Private investors buy enough of UPLifT's bonds to provide these loans to every person with the will to invest in his or her own learning for the future.

Proceed to a renovating neighborhood in another distressed urban core, in L.A., near U.S.C. Here, a low-income project has been turned into a vibrant residential community by the joint efforts--and ownership--of its former tenants. A new medical firm has located to take advantage of the spin-offs from the nearby medical complex and University research and the business climate and tax benefits provided by a federal-state-local University Enterprise Zone. This zone, formed for seven years under the new Bentsen Reinvest in America Act, is also being tried in nine other urban areas. A new mixed-income townhouse block has been built by a public-private, California State Housing Authority-Fannie Mae partnership; and existing residents from the distressed area with section 8 vouchers and training (good for three years) are joined here by service workers and professionals working nearby. The new National Community Investment Trust Fund, formed with $500 million in capital and an additional $2 Billion in lending authority from the 500 largest national and regional banks in cooperation with a nation-wide coalition of community groups, has invested in a locally owned, community bank. This CB has supported the start-up of new community-owned supermarkets and locally owned dry cleaning, multi-media and computer stores, medical supply firms, etc., all side-by-side with much larger loans from banks and thrifts stepping up to their CRA obligations. Home mortgage, small business and consumer lending from all of the traditional sources is also being made available in the community; and alternative check-cashing outlets are closing down. Community policing and neighborhood watch are bringing safety and a sense of personal security to the neighborhood; and, with the Brady Act, gunshops are closing down as the demand for handguns is on the wane.

Proceed to..............And there are poor families that are moving from distressed rural areas in Georgia and inner-city Atlanta and off of welfare to opportunities and jobs in the suburbs through the expanded, joint HUD-DOL program of Moving to Opportunities. Regardless of their race, color or national origin, these families can apply for credit and loans without discrimination from all lending sources.

Anyway, you hear the message: in every place no matter how distressed, for every person no matter how poor and isolated, there is hope for becoming a contributing member of our society. Every person--in the suburbs, the central cities, the rural areas--knows that we will all do better if every where across this land can be a place called hope....Hence,

A new Direction for America:
A Call for Hope in Every Place

Well, that's my shot for the day: what say you? Does it work? Too risky because it ties the plan to the President's personal story? Or does it gain resonance and speak more directly to all Americans because it is the living embodiment of the President's own life--and message--for a new direction?

Does the President want to make such a Call for Hope in Every Place, in no small measure because of his own journey from a place called hope. If he explains the reasons for this call in such personal terms will it speak American to all Americans?

I think the resonance could be very powerful, indeed. Just image the President addressing a joint session of Congress. As he enters the House Chamber, a video of the relevant portion of his acceptance speech rolls behind the Speaker and the Vice-President. After the obligatory introductions, the President begins, "As you know my journey to the well of the Congress today began in a place called Hope............[O.K., Bruce and Gene, with Kusnet and George, you draft the rest of the speech which lets the President speak what he means.]

As to the details (is that where the devil really is?), is there a phrase that fleshes out the message and forms the acronym HOPE (or PLACE)? Is there a tag line that can be added that will flesh out the message but avoids the risks of standing alone when tied to hope: e.g., A Call for Hope in Every Place--Empowering All Americans to Rebuild our Communities.

I end where I began: Does such speaking convey the message? Does it discipline our own evaluation of the diverse components and development of a plan?

cc Sheryll Cashin
Sylvia Matthews
Paul Weinstein

THE WHITE HOUSE

WASHINGTON

FEBRUARY 9, 1993

MEMORANDUM FOR BRUCE REED, GENE SPERLING

FROM: **Paul Weinstein**

SUBJECT: **Community Development Bank Legislation**

On Monday, February 8, I met with Steve Harris, staff director of the Senate Banking Committee. He expressed to me Senator Reigle's desire to work with us in drafting legislation to fulfill the President's campaign pledge to create a network of community development banks.

Both the House and the Senate have held hearings on community development banks. In the House, Representatives Kennedy and Neal have had hearings in their subcommittees and Reigle held his first hearing on February 3 — Milton Davis of the South Shore Bank testified.

Unlike Reigle, neither Kennedy or Neal is very enthusiastic about community development bank legislation. Kennedy is lukewarm to the idea at best, mainly because of opposition from groups such as ACORN, who fear we will use community development banks to weaken the Community Reinvestment Act (CRA). However, we can probably get Kennedy's support by dropping BC's proposal to allow commercial banks to meet a small portion of their CRA requirement by financing community development banks.

Neal feels that the Federal Government has no role in community development banking. He used his hearings to underscore that point.

Apparently Senator D'Amato will be introducing legislation on community development banks in the next couple of weeks. His legislation will likely gut CRA. Reigle opposes the D'Amato legislative proposal, and has asked his staff to draft an alternative bill. Although only a preliminatry draft, Reigle's bill would create a trust authorized for three years at $400 million annually to operate three programs, which will: (1) invest in Community Development Banks (CDBs); (2) invest in Community Investment Corporations (CICs) like community development credit unions and microenterprises; and (3) provide training and build capacity.

The Trust would provide assistance to promote development of affordable housing, small business, job creation, commercial and community facilities, and basic financial services through:

(1) Capital assistance to be used to provide loans, credit enhancement, equity investments, and loan loss reserves;

(2) Development Services assistance to provide business and financial counseling, management assistance and other support to borrowers, and program implementation costs;

(3) Technical Assistance to build the capacity of CDBs and CICs.

Steve Harris would like two things from us. One, he wants guidance on how to proceed. Should the Banking Committee continue with its hearings and at what pace? Second, he wants someone from the administration to meet confidentially with Democratic Senators so that Reigle can begin putting together a coalition.

Community Development Meeting Agenda

I. Introductions -- Bob Rubin
Gene Sperling
Bruce Reed

II. Objective:

The NEC would like to establish an interagency forum that will develop a comprehensive community development strategy for the Clinton Administration. Our objective for this meeting is to initiate a brief discussion about how such an effort should be organized and what issues the task force should address. Obviously, we will want to address community development banking and enterprise zones. We would like this meeting to address to following:

1) What other issues should be addressed by the interagency forum?

2) What should be the overarching strategy of the forum and how will individual issues interrelate?

III. Assigning of Discussion Papers

THE WHITE HOUSE

WASHINGTON

February 19, 1993

MEMORANDUM FOR WORKING GROUP ON ENTERPRISE ZONES AND COMMUNITY DEVELOPMENT BANKS

FROM: Gene Sperling
Bruce Reed

SUBJECT: Policy Discussion Meeting on Feb. 25, 1993

On Thursday, February 25, 1993 at 9:30 a.m. in OEOB (Room to be announced), we will convene a meeting of Assistant Secretaries and/or Chief's of Staff to exchange ideas on policy options concerning community development in distressed areas. Additional participants are welcome. We will conclude the meeting by 11:30.

If you would like to have materials that you forwarded to the working group staff distributed to other participants in advance of the meeting, please notify either Sheryll Cashin or Paul Dimond.

Attached is a memorandum from Paul Weinstein concerning the political calendar for legislation on community financial institutions and enterprise zones. Obviously, we need to move expeditiously so that Bob Rubin and Carol Rasco can make a presentation to the Cabinet Secretaries during the first week of March.

Please call either Sheryll Cashin or Paul Dimond to confirm who will be coming from your agency so that they can be cleared through the security system. Attached is a revised phone list for working group participants and staff.

We appreciate your continuing cooperation and input.

cc: Carol Rasco
Bob Rubin

Working Group on Enterprise Zones and Community Development Banks

Dept.	Name	Phone No.	FAX No.
AGRIC.	Ron Blackley	720-3631	720-5437
	Jane McNeil	720-3631	" "
	Mike Alexander	720-9245	" "
COMMERCE	John Sallet	482-4625	482-3610
	Larry Parks	482-5061	482-2693
	Brian Mathis		
HUD	Andrew Cuomo	708-2690	
	Bruce Katz	708-2713	
	Jacquie Lawing	708-0270	708-3336
LABOR	Kitty Higgins	219-8271	219-7659
	Larry Katz	219-6045	
OMB	Alice Rivlin		
	Ken Ryder	395-4516	395-6889
TREASURY	Frank Newman	622-2800	622-0387
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DOMESTIC POLICY COUNCIL	Bruce Reed	456-6515	
	Paul Weinstein	456-7930	456-7739
NEC	Gene Sperling	456-2620	456-2878
	Paul Dimond	456-7604	456-2223
	Sheryll Cashin	456-6410	" "

THE WHITE HOUSE

WASHINGTON

February 19, 1993

MEMORANDUM FOR COMMUNITY INVESTMENT INTERAGENCY TASK FORCE

FROM: **Paul Weinstein**

SUBJECT: **Political calendar for community financial institution/enterprise zone legislation**

Community Financial Institutions

After discussions with the House and Senate Banking Committee staffs, it is clear that we need to move quickly if we want to pass legislation this year. The consensus is that we need to send a bill to Congress no later than the beginning of April, although preferably earlier. This will allow for hearings on the bill and a markup to take place in late April and, assuming the legislation is passed out of Committee, floor consideration before the August recess. Hopefully the bill will go to conference in the early fall and we can expect passage sometime in October.

Sending the bill to Congress in late March or early April also makes sense in light of other Presidential initiatives going to the hill this spring. Congress will be preoccupied with the budget and tax bills in February and early March, while health care will be the dominant legislative issue in late spring.

On the House side, there are some jurisdictional problems within the Banking Committee. Three subcommittees are interested in the legislation, so the sooner we develop a policy framework, the quicker Gonzalez will designate jurisdiction.

Traditionally the Senate Banking Committee holds multiple hearings but markups can occur quickly, with regards to community financial institutions one day should suffice. The House Banking Committee tends to spend less time on hearings but their markups can drag on.

Enterprise Zones

Unlike the community financial institutions bill, enterprise zone legislation should not be a stand alone bill. The most obvious legislative vehicle for enterprise zone legislation is

the omnibus revenue bill, which will likely be taken up in March. Thus, passage of enterprise zone legislation is conditioned on passage of a revenue bill that includes the President's new tax initiatives.

A stumbling block on the enterprise zone legislation is the issue of multiple jurisdiction. On the House side, Ways and Means, Banking, Energy and Commerce, and Agriculture, all have jurisdiction. However, since the Congress came close to passing legislation last year, they may be more likely to move a bill quickly, especially if it is part of a larger revenue package.

Tentative Legislative Target Dates -- Community Financial Institutions Legislation

March 22 to April 9	-- Legislation submitted to Congress.
April 12 to May 7	-- Senate Banking Committee holds hearings. and markup. House Banking Committee holds hearings and Subcommittee has markup.
May 7 to May 21	-- Legislation is considered on Senate floor. House Banking Committee holds full Committee markup.
May 21 to June 21	-- Legislation is considered on House floor.
Post-August Recess	-- House/Senate conference and final passage.

Tentative Legislative Target Dates -- Enterprise Zone Legislation

Depends on time frame of omnibus revenue bill, but we will need a proposal in March.

cc: Paul Dimond
Sheryll Cashin

THE WHITE HOUSE

WASHINGTON

February 19, 1993

MEMORANDUM FOR COMMUNITY INVESTMENT INTERAGENCY TASK FORCE

FROM: Gene Sperling
Bruce Reed

SUBJECT: Policy Discussion Meeting on Feb. 25, 1993

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cc: Carol Rasco
Bob Rubin

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WASHINGTON

February 19, 1993

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cc: Paul Dimond
Sheryll Cashin

Community Investment Task Force

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	Paul Dimond	456-7604	456-2223
	Sheryll Cashin	456-6410	" "

Gene,

After reviewing enterprise zone proposals we feel a labor person should be included. Who would you recommend?

—SDC

CC: Bruce Reed ✓

THE WHITE HOUSE

WASHINGTON

COMMUNITY INVESTMENT INTERAGENCY TASK FORCE
ASSIGNMENTS / FOLLOW-UP TO MEETING OF FEB. 17, 1993

Phone and fax numbers for participants and task force staff are attached.

1) Week 1: Agencies and OMB will conduct an immediate review of proposals for community financial institutions and enterprise zones and forward a review of proposals to the task force staff. The political calendar for action in this arena will also be determined.

Paul Weinstein will coordinate and contact you today. Please provide your input to him by Monday, Feb. 22. The agency contacts on this assignment are:

Agriculture:	Mike Alexander
Commerce:	Larry Parks
HUD:	Jacquie Lawing
Treasury:	Dave Lebryk
OMB:	Ken Ryder (Dep. Asst. Dir., Housing, Treasury and Finance)

2) Week 2: Agencies and OMB will conduct an evaluation/inventory of the extent to which existing programs could be redirected or revitalized.

Sheryll Cashin will coordinate and contact you today. Please complete this task by Friday, Feb. 26. The agency contacts on this assignment are:

Agriculture:	Jane McNeil
Commerce:	Larry Parks
HUD:	Jacqui Lawing
Treasury:	Dave Lebryk
OMB:	Ken Ryder

3) Week 2: Agency and OMB participants will meet with Paul Dimond individually over the next week to discuss development of an overall strategy for evaluation of new initiatives, including community financial institutions and enterprise zones. Please hold open Thursday, Feb. 25 at 9:30 a.m. for a group discussion of overall strategy.

We wish to underscore the urgency of our timeframe. We would like to have the group make a presentation to Bob Rubin and Carol Rasco on Tuesday, March 2 so that they can meet with cabinet secretaries by the end of that week. Thanks for your enthusiasm and cooperation!

Community Investment Task Force

Dept.	Name	Phone No.	FAX No.
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THE WHITE HOUSE

WASHINGTON

February 15, 1993

MEMORANDUM FOR GENE SPERLING
BRUCE REED

FROM: PAUL DIMOND PD
SHERYLL CASHIN SDC

RE: COMMUNITY INVESTMENT AND RENEWAL

I. Overview

We recommend a four-part approach to developing a strategy for community investment and renewal:

• immediate review of proposals for community development banks and enterprise zones and the political calendar (week 1)

• evaluation by Treasury, Commerce, HUD, Agriculture and OMB of the extent to which existing programs could be redirected or revitalized (week 2)

• development of an overall strategy for evaluation of new initiatives, including community development banks and enterprise zones (week 2)

• development of a process to involve Education, Labor, HHS, DOT and Justice (week 3)

II. Discussion

A. With the assistance of the agencies, we will undertake a review of the specific issues of community financial institutions and enterprise zones. This review will fully inform us on any alternative bills in Congress and any pressures for early action. At the same time, we will seek cooperation from the Hill in delaying consideration of any specific proposal pending the development of a more comprehensive strategy. This review will be completed in one week and will include the time constraints for legislative and political action.

B. Treasury, HUD, Commerce, Agriculture and OMB will be asked to conduct an inventory of existing investment programs that impact urban (and rural) economic and community development. The purpose of this inventory is to ask each agency to determine:

1. how redirecting or revitalizing the programs could increase the availability of credit and investment in distressed areas; and

2. the extent to which such redirection may contribute to improving the economy.

This inventory will begin immediately and will be completed in two weeks.

C. We will undertake a series of policy conversations with the key persons in these agencies to develop an overall strategy for economic investment and the appropriate mix of redirecting existing programs and proposing new initiatives. We will also ask OMB to evaluate the extent to which coordinated challenge grants, or other portfolio management approaches, should be considered. This process will begin immediately and will be completed in two weeks.

Within ten days, we should have sufficient information to prepare talking points for a meeting chaired by Bob Rubin and Carol Rasco with the Cabinet Secretaries and their designated staff. This meeting will introduce the framework and timing for exploring, developing and implementing an overall policy and specific components thereof.

D. Finally, the larger social context for any such economic investment strategy to renew communities should be considered--e.g., education and training, law enforcement and drug prevention, health and welfare reform, transportation. Over the next ten days we will evaluate how Education, HHS, Labor, DOT and Justice can be woven into the fabric of a larger initiative.

III. Conclusion

Please let us know if this approach and time frame is on the mark and what changes or modifications you want. We will begin contacting the key persons in the agencies immediately to gather the information necessary for whatever approaches you direct.

Finally, Gene, we would like to work with you on the message that should shape (and be shaped by) this approach.

cc: Carol Rasco
Bob Rubin
Bo Cutter
Paul Weinstein

2.15.93 CDBs

TREASURY (Newman) Inventory of programs in existence
HUD take lead in defining objectives
Treasury make the banks work
Not a substitute for CRA

Credit counch
LITC
CRAs

CISNEROS: Credit strategy - for housing, small bus.,
Don't trot this out too early

KATZ: Banking Comm. wants macro approach - CD loan funds

RUBIN: Broaden this group as much as possible

CISNEROS: Task forces on → Principles for a Community Development Strategy
1) Comm Dev.
2) Welfare Reform
3) Crime

CISNEROS/TREASURY: LA will be ugly
DIAMOND: People vs. places

BR: Subcomms: 1) E-zones 2) CBBs $\boxed{\text{3) LA}}$
Larger comm. chaired by Bob + Carol

Investment vs Empowerment ⟷ LATIMER

* → BR HEAD SUBCOMM ON LA
→ CABINET MTG ON COMM. EMPOWERMENT

THE PRESIDENT HAS SEEN
12-10-93

FYI
- Derek

To Bruce Reed
FYI

Draft
Not for Citation

COMMUNITY EMPOWERMENT STRATEGIES: THE EXPERIENCE OF COMMUNITY-BASED PROBLEM-SOLVING IN AMERICA'S URBAN NEIGHBORHOODS AND RECOMMENDATIONS FOR FEDERAL POLICY

Peter Dreier
International and Public Affairs Center
Occidental College
Los Angeles, California 91104

Roundtable on Urban Policy
U.S. Department of Housing and Urban Development
Social Science Research Council

December 1993

I. Introduction

The past 15 years have seen a remarkable resurgence of citizen activism. Residents of America's urban neighborhoods have ignited what Harry Boyte called a "backyard revolution" of community activism.[1] Most American cities, and many inner-ring suburbs, have at least some level of grassroots neighborhood participation. Today, there are tens of thousands of neighborhood organizations involved in a wide range of community improvement efforts. Some organizations combine community mobilization with the delivery of services (child care, job training, housing counseling) and/or with community development (such as affordable housing and small business creation), but the root of the new community empowerment movement is grassroots organizing to solve social problems and improve economic conditions in distressed urban neighborhoods.

The range of issues and concerns is quite remarkable, including public safety, crime and drugs; tenants' rights, abandoned housing, and housing discrimination; environmental and public health issues such as the dumping of toxic wastes, smoking, lead paint, and pollution; community reinvestment, redlining, and related matters; economic development, job training, and plant closings; youth, education, and recreation; and the delivery of municipal services. Some community organizations focus on one issue, while others tackle a variety of issues under one organizational umbrella. Some groups focus entirely on problems on their block or in their neighborhood. Some groups branch out to tackle issues across neighborhoods, either by expanding their own "turf," or by forging alliances/coalitions with their counterparts in other neighborhoods. These community organizations vary widely in size, scope, and competence.

The experiences and activities of the nation's community-based empowerment organizations

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[1]Harry Boyte, The Backyard Revolution: Understanding the New Citizen Movement, Philadelphia: Temple University Press, 1980; Harry Boyte, Commonwealth: A Return to Citizen Politics, New York: Free Press, 1989; and Jeffrey Berry, Kent Portney, and Ken Thomson, The Rebirth of Urban Democracy, Wash., D.C.: Brookings Institution, 1993.

provide ample evidence that the American self-help tradition is alive and well. But while millions of Americans are engaged in some aspect of community organizing, the general public is not well-informed about this phenomenon. The mainstream media typically report the activities of these groups only when they disrupt "business as usual." Few newspapers or TV stations have a "neighborhood beat" that routinely covers the efforts of community-based organizations.[2]

While funders and some scholars have examined specific organizations, there has been relatively little analysis of their experiences or of the ingredients and factors that account for success. Still, there is a sufficient body of knowledge about this growing sector of American urban life to provide a brief overview of recent trends and an evaluation of the factors that contribute to success or failure.[3]

II. The Federal Government Role in Community Empowerment

It is particularly heartening that the Clinton Administration has embraced the notion of community

[2]Peter Dreier, "Housing: The Invisible Crisis," Washington Journalism Review, May 1991; Peter Dreier, "Memo to the Media" and "A Housing Checklist for the Media," Shelterforce, September/October 1993.

[3]There are no systematic studies of the wide range of activities of community organizing groups, including the various training centers and organizing networks. A few publications -- including Social Policy, City Limits, Neighborhood Works, Shelterforce, and Third Force -- regularly report their activities. A few books focus on various aspects of community organizing. These include: Robert Slayton, The Back of the Yards, Chicago: University of Chicago Press, 1986; Mary Beth Rogers, Cold Anger: A Story of Faith and Power in Politics, Denton, Texas: University of North Texas Press, 1990; John Glen, Highlander: No Ordinary School, Lexington: University of Kentucky Press, 1988; Harry Boyte, Heather Booth and Steve Max, Citizen Action and the New American Populism, Philadelphia: Temple University Press, 1986; Robert Fisher, Let the People Decide: Neighborhood Organizing in America, Boston: Twayne Publishers, 1984; Sanford Horwitt, Let Them Call Me Rebel: Saul Alinsky--His Life and Legacy, New York: Knopf, 1989; Donald C. Reitzes and Dietrich C. Reitzes, The Alinsky Legacy: Alive and Kicking, Greenwich, Conn.: JAI Press, 1987; Gary Delgado, Organizing the Movement: The Roots and Growth of ACORN, Philadelphia: Temple University Press, 1986; Eliot Wigginton, ed., Refuse to Stand Silently By: An Oral History of Grassroots Social Activism in America, New York: Doubleday, 1992; Stephen Fisher, ed., Fighting Back in Appalachia, Philadelphia: Temple University Press, 1993; William Greider, Who Will Tell the People?, New York: Simon and Schuster, 1992; and Robert Bullard, ed., Confronting Environmental Racism: Voices from the Grassroots, Boston: South End Press, 1993. A description and analysis of tenant organizing is found in Peter Dreier, "The Tenants Movement in the United States," International Journal of Urban and Regional Research, Vol. 8, No. 2, 1984 (reprinted in Rachel Bratt, Chester Hartman and Ann Meyerson, eds., Critical Perspectives on Housing, Philadelphia: Temple University Press, 1986.

empowerment as a component of its policy agenda to revitalize and strengthen America's urban communities. This makes sense from both a moral and an administrative perspective. Democracy means self-government, which rests on two foundations -- citizen participation and reciprocal responsibility. Community empowerment reflects long-standing American values: Strengthening families in the context of healthy neighborhoods. Self-help and voluntarism. Balancing rights and responsibilities.

Moreover, for government community development programs to succeed, social institutions in America's neighborhoods must be strengthened. Neither the public sector nor the private sector, on their own, can address the problems of America's urban areas. Community organizations must play a key role. In recent years, American business has come to recognize the benefits of restructuring enterprises to increase the voice of workers, middle-level managers, and even consumers in decision-making. As the Clinton Administration moves to "reinvent" government, it can apply these same lessons. Rather than view neighborhood residents as passive "consumers" or "clients" of government services, however, it is more appropriate -- as well as more efficient and effective -- to view them as citizens and partners. They can help shape, promote, and even deliver services. For America's urban neighborhoods to be healthy, residents must gain a stronger voice in shaping the physical, economic and social conditions in their communities.

Government support for community organizing involves a healthy and creative tension. Government's institutional culture encourages lawmakers and bureaucrats to view policymaking and program implementation as their prerogatives. The Clinton Administration has recognized, however, that policies and programs are a two-way street. Citizen participation can sometimes be messy or even conflictual, but the result is typically better public policy, most cost-effective programs, and a healthier democracy.

Government can play an important role in encouraging grassroots self-help efforts in several ways such as making regulations and processes accessible to community groups (such as public hearings and public information), and funding the direct operations, the training, and the ancillary activities of community groups.

I would urge the Clinton Administration to make community empowerment efforts an eligible activity in its new National Service program, rather than focus exclusively or even primarily on human service-oriented efforts. This initiative is in many ways a centerpiece of the Administration's effort to rekindle the spirit of public service. Grassroots empowerment, which emphasizes citizenship, not clientship, best embodies this spirit.

The Clinton Administration's commitment to community empowerment is a breath of fresh air. I will make some specific policy and program recommendations which I believe will help the Clinton Administration carry out this commitment. But beyond specific policy ideas, President Clinton, Secretary Cisneros, and other top officials of the government can help create a positive climate for grassroots self-help efforts simply by using their "bully pulpit" to recognize and draw public (and media) attention to grassroots organizing. They can help inspire a new generation of community activists and encourage neighborhood residents to gain self-esteem and self-confidence by organizing their neighbors to improve their communities.

In the Depression, after the Wagner Act was passed, grassroots union leaders were able to inspire working men and women with the message that "President Roosevelt wants you to join the CIO." Eleanor Roosevelt, Labor Secretary Francis Perkins, and other New Deal leaders spent much time visiting mines, factories, farms and other places where Americans were organizing to improve their living and working conditions. And even though most newspapers and newsreels were not fond of unions, their very presence at these symbolic visits helped communicate the message that organizing was good for the country.

President Clinton and Secretary Cisneros have already played a similar role in their visits to America's inner cities. But I think they can do even more along these lines. The President's recent speech in Memphis, and a similar speech in Los Angeles a few days later, were dramatic statements of his personal commitment to address the problems of the inner city. Had I had the President's ear, however, I also would have encouraged him to visit with some of the community organizing leaders in those cities -- such as the Concerned Citizens of South Central, Mothers of East LA, or the United Neighborhoods Organization (UNO).[4] I would have encouraged him to visit a housing development or business sponsored by a neighborhood-based non-profit organization. I would urge the Administration to start a "neighborhood heroes" awards program and honor those leaders and organizations who are working on the front lines to empower low-income people in their communities.

The Clinton Administration can build on an existing track record of federal funding for community organizing from the Great Society anti-poverty programs through today. Over the years, HUD has sponsored a wide variety of community self-help and mobilization efforts, from the Model Cities program, to the Tenant Management demonstration program, to the recent Neighborhood Development Demonstration Program (now called the Heinz Neighborhood Development Program), to community-based fair housing monitoring and homeownership counseling, to support for tenants in public housing and HUD-assisted housing to mobilize to fight crime, improve management, give tenants a stronger voice in management, and help tenant associations purchase their homes or negotiate with private owners and non-profit organizations to assume ownership.

In the 1970s, the Department of Justice, through LEAA, sponsored a successful Community Anti-Crime Program that helped community organizations expand arson prevention, crime watch, and related public safety efforts. In those same years, VISTA funded hundreds of successful community organization efforts on a wide range of issues and concerns. Many of these VISTA- and LEAA-funded groups have weathered the traumatic Reagan/Bush years and remain rooted in their neighborhoods, working on issues

[4]UNO, along with its sister organization, COPS in San Antonio -- both part of the Industrial Areas Foundation network, based in church organizations -- is discussed in some detail in Peter Skerry, Mexican Americans: The Ambivalent Minority, New York: Free Press, 1993.

of community improvement. The EPA's Technical Assistance Grants (TAG) program provides grassroots environmental groups with funds to help them identify local health and safety hazards in their communities, investigate the impact of toxic sites, and monitor pollution control efforts, in part by hiring experts to work for them. Although the Reagan administration eliminated LEAA and, with it, the Community Anti-Crime Program, the DOJ now has a similar (but much smaller) program, funded through National Training and Information Center (NTIC), to provide technical assistance to dozens of community organizations working on neighborhood drug, crime, and gang problems.

III. Successful Community Organizing Requires Leadership Training and Capacity Building

There is no easy formula to explain when and how residents of a neighborhood -- particularly a low-income neighborhood -- will join together to address a common problem, or whether they will enjoy success in their efforts. It cannot be explained simply by looking at macro-economic forces, since community organizing has emerged in good times and bad times, when things were improving and when things were getting worse. It cannot be explained entirely by looking only at neighborhood-level conditions either. Two neighborhoods with similar social and economic conditions -- the same levels of poverty, racial composition, church membership, crime rates, and housing conditions -- may manifest two very different levels of community mobilization.

Any careful and honest examination of community mobilization must recognize that there are many "false starts" on the road to community empowerment. In fact, because we rarely hear about these false starts that went nowhere, we fail to note that many grassroots initiatives never get much beyond the first living room gripe session, the first church basement get together, the first phone call that fell on deaf ears, or the first leaflet that landed (without any response) in neighborhood mailboxes.

But "success" is not simply about winning victories around specific issues. It is also about changing attitudes. It is about overcoming hopelessness and the sense of futility that infects America's inner cities -- what some have called the "quiet riots" of drug and alcohol abuse, violence, and suicide.

It is about giving young people a vision of a different, and better, future. It is about giving people more self-confidence and self-esteem. It is, in other words, about winning hearts and minds as much as winning better police protection, a new stop light on the corner, or a new bank branch in the neighborhood. It is these changes in attitudes that give people, and neighborhoods, the inner strength to organize around issues and to develop a vision that things can be different than they are. Religious institutions often play a key role in community organizing, in part because they provide the moral solidarity that adds an important dimension to self-help efforts that transcend narrow conceptions of "self-interest."[5]

The process of developing strong leaders and strong community organizations is not simply a matter of expanding the self-confidence and skills of certain individuals. It is about building solid organizations to change economic conditions, to strengthen families and communities, to improve the social fabric not only of urban neighborhoods. This will have important ripple effects for the entire society because, as Secretary Cisneros has observed, their destinies are "interwoven."[6]

Many local community organizations are extremely fragile entities. Staff members and leaders may have enormous commitment and energy, but these attributes alone do not make for strong organizations. Leaders and staff must be skilled in building organizations. Too many community groups rely on a small number of leaders and, in most cases, a few staff people. When these people leave or "burn out," the organization often collapses, because there has been no plan for developing and recruiting

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[5]Gregory F. Pierce, Activism that Makes Sense: Congregations and Community Organization, Chicago: ACTA Publications, 1984; Robert McAfee Brown and Sydney Thomson Brown, eds., A Cry for Justice: The Churches and Synagogues Speak, New York: Paulist Press, 1989. Samuel Freedman's Upon This Rock: Miracles of a Black Church (New York: HarperCollins, 1993) describes the activities of Rev. Johnny Youngblood in mobilizing his Brooklyn, New York congregation and other congregations around neighborhood improvement. Youngblood's group, East Brooklyn Churches, is part of the Industrial Areas Foundation, which has pioneered the involvement of parishes and congregations in community organizing. See the works by Boyte, Rogers and Greider cited in previous footnotes.

[6]Henry Cisneros, ed., Interwoven Destinies: Cities and the Nation, New York: W.W. Norton, 1993.

new leadership and staff. In some situations, charismatic or dominant leaders resist recruiting new leaders and members because they are threatened by potential competitors or because they don't recognize how spreading out the tasks and giving more people a stake in the organization strengthens a group's effectiveness. Many groups have very small budgets and often limp along from year to year (sometimes from month to month) without a plan for sustained fundraising.

Success also depends on the ability of poor people's movements and community groups to mobilize resources and generate external support for their activities from different sectors of the public (the "conscience constituency"), from government officials, from the media, and from funders, including religious institutions, philanthropic organizations, the private sector, and government.[7]

Successful community empowerment requires a number of factors. Among the key factors are (a) strong skilled indigenous leadership, (b) a stable organization in terms of membership and funding, (c) a clear sense of mission, which includes having a long-term stake in the community and (d) an overall strategy that allows it to build on its victories as well as its defeats.

These attributes do not emerge overnight. They are the result of a process of leadership development, organizational capacity-building, and education and consciousness-raising. Successful community empowerment efforts depend a great deal on indigenous leadership development and organizational capacity-building -- the important "how to" matters -- everything from chairing meetings, to dealing with the media, to negotiating with government and business institutions, to dealing with fundraising and budgets, and so on. Some of this occurs "naturally" among people who develop the skills, stamina, and will power to succeed as community activists, organization-builders, and problem-

[7]An early statement of what is now called the "resource mobilization" perspective is Michael Lipsky, Protest in City Politics, Chicago: Rand McNally, 1970. A more recent version is William Gamson, The Strategy of Social Protest, Belmont, Cal.: Wadsworth Publishing, second edition, 1990. Academic debate on the relative importance of indigenous and external resources in successful grassroots activism is found in Aldon D. Morris and Carol Mueller, eds., Frontiers in Social Movement Theory, New Haven: Yale University Press, 1992; and in Carl Milofsky, ed. Community Organizations: Studies in Resource Mobilization and Exchange, New York: Oxford University Press, 1988.

solvers. But the popular notion that most leaders and movements somehow just emerge spontaneously is quite misleading -- the stuff of folklore.

Most Americans believe, for example, that the Montgomery Bus Boycott and the subsequent civil rights movement was triggered spontaneously by Rosa Parks' sudden refusal to move to the back of the bus. In fact, as historians and social scientists know, Mrs. Parks and her husband were long-time civil rights activists, involved with the NAACP and other organizations. She had attended the Highlander Folk School, a training center for citizenship education, and was part of a network of African-American community leaders (including E.D. Nixon of the Brotherhood of Sleeping Car Porters) who had the capacity to mobilize resources quickly and efficiently, including meeting sites (particularly churches), mimeograph machines and telephone lists, fundraising, organizing a complex alternative transportation system, and identify people to play a variety of leadership roles, including Dr. King, but also a large number of less-heralded individuals.

This example simply illustrates the important point that successful community mobilization need not reinvent the wheel, but can draw on recent experiences in leadership development and organization building that has been somewhat codified through a variety of training centers, organizational networks, and other vehicles. Strong grassroots community leaders, as well as strong grassroots community organizations, are born and made.

IV. Limits and Potential of Neighborhood Organizing

Every observer of urban neighborhood problems recognizes that the sources of urban decay primarily reside outside neighborhood boundaries. The symptoms of urban decay -- poverty, unemployment, homelessness, violent crime, racial segregation, high infant mortality rates -- have their roots in large-scale economic forces and federal government policy. These include economic restructuring toward a low-wage service economy, corporate disinvestment (encouraged by federal tax laws), "bidding wars" between cities and states to attract business that undermines local fiscal health, redlining by banks and insurance companies, federal housing, transportation, tax, and defense spending policies that have subsidized the exodus of people and businesses to suburbs (exacerbating city fiscal traumas), and federal cutbacks of various fiscal assistance, housing, social service, economic development, and other programs. These large-scale forces can undermine the economic and social fabric of urban neighborhoods.[8]

In the face of these realities, neighborhood empowerment organizations face enormous obstacles in repairing the social and economic fabric of their communities. What influence can neighborhood self-help organizing have on policies made in state capitols and in Washington and decisions made in corporate board rooms? Some would argue that neighborhood crime watches, tenant organizations, community reinvestment coalitions, and similar groups can only have marginal impact in light of these major trends and forces.

Although there is some truth to this notion, it is ultimately misguided. Community-based organizations cannot, on their own, solve the major problems in their neighborhoods. But they provide the essential building blocks for doing so.

This is a very important point. Most neighborhood and community organizations that operate on their own have only limited success. They can win some victories, but they often have difficulty sustaining their accomplishments. In part this is due to the organization's incapacity to develop strategies for strengthening their base and moving on new issues. But it is also due to the fact that the resources or authority to address a neighborhood's problems are not available at the neighborhood level, or even

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[8]Peter Dreier, "America's Urban Crisis: Symptoms, Causes, Solutions," North Carolina Law Review, Vol. 71, No. 5, June 1993; Douglas S Massey and Nancy M. Denton, American Apartheid: Segregation and the Making of the Underclass, Cambridge: Harvard University Press, 1993; William J. Wilson, The Truly Disadvantaged, Chicago: University of Chicago Press, 1987; William W. Goldsmith and Edward J. Blakely, Separate Societies: Poverty and Inequality in U.S. Cities, Philadelphia: Temple University Press, 1992; James Johnson, Cloyzelle Jones, Walter Farrell, and Melvin Oliver, "The Los Angeles Rebellion: A Retrospective View," Economic Development Quarterly, Vol. 6, No. 4, November 1992; Robert Fishman, "America's New City: Megalopolis Unbound," Wilson Quarterly, Winter 1990.

at the city level.

Community organizations have won many neighborhood-level victories.[9] Some organizing networks have built statewide coalition to address state-level issues and change laws, regulations, and priorities. But the hard truth is that despite the tens of thousands of grassroots community organizations that have emerged in America's urban neighborhoods, the whole of the community organizing movement is smaller than the sum of its parts. For every group that succeeds, there are many that do not. With some important exceptions -- which I'll discuss shortly -- many community groups that do succeed and win these important local victories are not always capable of building on their success and moving on to other issues and larger problems. For the most part, despite its local success and its growth, community-based organizing has been unable to affect the national agenda -- and, in most cases, even the state agenda. As a result, conditions of life in these neighborhoods are only marginally better than before.

V. Lessons from the Community Development Sector

This scenario may sound familiar to those who have closely watched the community-based

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[9]Community organizations engage in a wide variety of activities. Here's a sample: Getting city officials to shut down a crack house; get a housing authority to improve security or set up a day care center; getting a bank to increase its mortgage loans or add a neighborhood branch; push the city housing inspection department to beef up code enforcement in slum building; pressure cigarette or alcohol companies to remove billboards that market their products to young people; persuade city government to increase police patrols in the neighborhoods; push the school board to utilize school facilities for day care or after school youth programs (such as "midnight basketball"); stop a toxics-emitting facility from being sited in the community; work with government agencies to clean up a toxic site or abate lead paint from old apartment buildings; educate and inform neighborhood residents about the Earned Income Tax Credit and child immunization programs; organize "take back the streets" campaigns; work with local police to identify drug dealers and monitor the courts to make sure that repeat offenders to stiff sentences; work with local lenders to sponsor "bank fairs," and provide homeownership counseling, to help residents become homeowners; set up an arson prevention program to identify and monitor "arson prone" buildings and owners; work with community based development organizations to encourage lenders and government agencies to target more housing and economic development funds to their neighborhoods; publish a neighborhood newsletter and produce a weekly neighborhood show on local cable TV; organize residents of "expiring use" Section 8 developments to form a tenant cooperative; stop unscrupulous realtors from block-busting or unscrupulous private mortgage companies from "scamming" unknowing homeowners with usurious interest rates and shoddy construction on home repairs; and organize residents to escort senior citizens to and from doctors appointments and shopping.

development sector during the past 15 years or so. Many of the early CDCs from the late 1960s and 1970s – with roots in well-intentioned community organizations, churches, and social service agencies – tripped over their own inexperience. With some funding from foundations and Washington, this generation of CDCs struggled to undertake physical redevelopment projects. But many of these early CDCs lacked the financial, development and management to efficiently and competently construct and manage low-income rental housing. Although a few of these early groups managed to survive, grow and prosper, quite a few fell on hard times and, ultimately, went out of business. Some of their housing projects were mismanaged; some fell into foreclosure.

In the early 1980s, as Washington began sharply cutting assistance for low-income housing, few observers would have predicted that the decade would witness something of a renaissance for the non-profit community development sector. As the decade began, only a handful of organizations had the capacity to do more than fix up a small building or two. Only a few organizations had the capacity to undertake complex projects that required multiple sources of funding. Even fewer had the capacity to manage rental housing occupied by populations with many social and economic problems. Although the nation's community-based development sector is still relatively small, and its track record is uneven from region to region, all observers acknowledge that it has made significant headway in the past decade, against overwhelming odds, including an unsympathetic federal administration, patchwork financing, high-risk development projects, and undercapitalization. They are increasingly moving from the margins to the mainstream of the nation's community revitalization efforts.[10]

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[10]Avid Vidal, Rebuilding Communities: A National Study of Urban Community Development Corporations, New York: New School for Social Research, Community Development Research Center, 1989; Neil Mayer, "The Role of Nonprofits in Renewed Federal Housing Efforts," in Denise DiPasquale and Langley Keyes, eds., Building Foundations: Housing and Federal Policy, Philadelphia: University of Pennsylvania Press, 1990; Peter Dreier and J. David Hulchanski, "The Role of Nonprofit Housing in Canada and the United States: Some Comparisons," Housing Policy Debate, Vol. 4, No. 1, 1993; Christopher Walker, "Nonprofit Housing Development: Status, Trends, and Prospects," forthcoming in Housing Policy Debate, Vol. 4, No. 3, 1993.

The Clinton Administration, and particularly Secretary Cisneros, have recognized the potential of the community development sector and have pledged to encourage it through strengthening CRA, creating a community development bank program, and improving the HOME program, including the Community Housing Partnership initiative within it.

This is not the place to recount the story of America's CDC sector, except to note that some of the lessons learned from that experience can be helpful in understanding how the Clinton Administration might encourage and support successful community self-help empowerment efforts.

The key ingredient in the numerical growth and improved capacity of the community development sector has been the creation and expansion of national, regional, and local nonprofit intermediary institutions over the past decade. These include organizations such as the Local Initiatives Support Corporation (LISC), the Enterprise Foundation, the Neighborhood Reinvestment Corporation, Telesis Corporation, Development Training Institute, Community Builders, Community Economics, Institute for Community Economics, the McAuley Institute, and others. They provide technical assistance to help existing organizations improve their skills and to help new organizations learn the basics of community development. They help channel private, philanthropic and government funding (including federal HOME/Community Housing Partnership moneys and Low Income Housing Tax Credits) to community-based development groups to help them undertake projects that will succeed.

Thanks in part to the work of these intermediary institutions, community-based development organizations have become increasingly sophisticated in terms of finance, construction, management, and other key functions. This has been accomplished not simply by targeting technical assistance and funds to individual groups, but in allowing groups to learn from each other, build on each others successes, and form partnerships and coalitions. The Metropolitan Boston Housing Partnership, the Chicago Rehab Network, the Neighborhood Development Collaborative in Los Angeles and other citywide umbrella organizations -- many of them public-private-community partnerships -- have exponentially expanded the capacity of CDCs in their cities. These collaborative partnership efforts have, in turn, provided the community development groups with the resources to become key players in their neighborhoods, not only in the areas of housing and economic development, but also as sponsors of, or facilitators of, improved human services, public safety, and other components of vibrant, healthy neighborhoods.

Although in some parts of the country the community-based development sector is still barely visible, in many areas it has become a highly visible and important part of community rebuilding efforts. As they grow in development sophistication, their success triggers others successes in a somewhat cumulative process. Communities have more hope when they see buildings repaired and new businesses opening up. Other neighborhoods recognize that they, too, can do the same thing. Neighborhoods that once objected to "subsidized housing projects" in the past are more likely to welcome developments sponsored by community-based groups that can demonstrate success in design, construction, management, and local hiring.

VI. Organizing Networks and Training Centers

What does this have to do with community organizing and empowerment efforts? Many of the same ingredients involved in the past decade's growth of community-based development can be seen in the community organizing sector as well.

During the past decade, the field of community organizing has become more institutionalized and, to some extent, professionalized. In the early days of community organizing, skills and experience were passed on informally, through a kind of "oral tradition." Through his books and through his training center, the Industrial Areas Foundation, Saul Alinsky sought to codify the knowledge and lessons from his and others' experiences. The Highlander Center played a similar role for activists and organizations in the civil rights movements.

Today, there are a number of training centers that have successful track records of teaching community organizations the skills needed to develop indigenous leaders, build strong community organizations, and win victories that improve social and economic conditions in their neighborhoods. Many local groups, and thousands of leaders and staff people, have participated in these training programs in the past decade alone. In addition to the Industrial Areas Foundation (IAF) and the Highlander Research and Education Center, these training centers include the Midwest Academy, Center for Third World Organizing, National Training and Information Center (NTIC), Institute for Social Justice, National Housing Institute, Gamaliel Foundation, the Organizing and Leadership Training Center in Boston, Organize Training Center, Pacific Institute for Community Organizations (PICO) in Oakland, Regional Council of Neighborhood Organizations in Philadelphia, United Connecticut Action for Neighborhoods (UCAN), Center for Community Change (CCC) and several others. Many of these training centers provide technical assistance to groups across the country, while some focus on particular regions. These training centers have developed well-honed techniques, books[11], manuals, videos, and other materials to train grassroots leaders and create vibrant community organizations.

Some of these training centers are affiliated with some of the national community organizing networks that have emerged in the past decade or so. These networks include ACORN, the Industrial Areas Foundation network, National People's Action, and Citizen Action as well as somewhat looser affiliations through the National Toxics Campaign, the National Low-Income Housing Coalition, and the Citizens Clearinghouse On Hazardous Waste. These networks have had considerable success not only in forging strong neighborhood organizations, but also in linking neighborhood organizations together to address broader social and economic issues that transcend neighborhood boundaries.[12]

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[11]For example: Kim Bobo, Jackie Kendall and Steve Max, Organizing for Social Change: A Manual for Activists in the 1990s, Wash., D.C.: Seven Locks Press, 1991; Gary Cohen and John O'Connor, eds., Fighting Toxics, Wash., D.C.: Island Press, 1993; Si Kahn, Organizing: A Guide for Grassroots Leaders, Silver Spring, Md.: NASW Press, 1991; Lee Staples, Roots to Power: A Manual for Grassroots Organizing, New York: Praeger, 1984; Maritza Pick, How to Save Your Neighborhood, City, or Town: The Sierra Club Guide to Community Organizing, San Francisco: Sierra Club Books, 1993.

[12]See footnote 3 for sources of information about these networks and training centers.

Like their counterparts among intermediaries and training programs in the community development sector, these networks and training centers have the capacity to significantly expand the effectiveness and scope of the nation's grassroots community organizations. They have the staff, the experience, the track record, the staying power, and the vision to help community groups address the major obstacles to broader success: leadership development, organizational capacity-building, and alliances and external support.

Compared with their community development counterparts, however, these community organization networks and training centers are shoe-string operations. They are an incredible untapped resource. They, and the groups that could take advantage of their expertise, lack the funds to move much beyond the current level of activity. These networks and training centers can play an important role in promoting successful community empowerment at the neighborhood level as well as helping neighborhood groups form alliances with their counterparts in other neighborhoods, cities, and regions.

VII. Three Contrasting Case Studies

To illustrate these observations, I will briefly compare trends in community organizing in three areas: community reinvestment, public housing, and HUD-assisted housing.[13]

1. Community Reinvestment

Perhaps the most successful community-based organizing that has taken place in the past decade has been around the issue of redlining and community reinvestment. It is worth looking closely at this movement in order to understand the ingredients for its success.[14]

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[13]These and other examples of organizing on housing and community development issues are discussed in greater detail in Peter Dreier, The American Dream: Grassroots Strategies for Affordable Housing, forthcoming 1994; some of the same material is reported in Peter Dreier and John Atlas, "Grassroots Strategies for the Housing Crisis: A National Agenda for the 1990s," Social Policy, Vol. 19, No. 3, Winter 1989.

[14]For case studies of community organizing around redlining issues, see Gregory Squires, ed., From Redlining to Reinvestment: Community Responses to Urban Disinvestment, Philadelphia: Temple University Press, 1992; and Peter Dreier, "Redlining Cities: How Banks Color Community

In the mid-1970s, a small group of community activists in cities across the country recognized that the invisible hand of market forces had a red pen in it. In Baltimore, Boston, Chicago, Cleveland, New York, and other cities, neighborhood residents and small business owners began to recognize a pattern in bank lending decisions. Banks were refusing to make home and business loans to certain neighborhoods, creating a self-fulfilling prophecy of neglect and deterioration.

Local activists concluded that their neighborhoods were experiencing systematic disinvestment, not isolated lending decisions by misguided loan officers. These activists undertook local efforts to convince banks to revise their perceptions and lending practices. Some were simply educational campaigns to change how bankers -- often suburban residents with stereotyped images of city neighborhoods -- viewed these areas. Other efforts involved organizing consumer boycotts "greenlining" campaigns of neighborhood banks that refused to reinvest local depositors' money in their own backyards. Most of these local efforts ended in frustration. But some neighborhood groups achieved small victories, including agreements between banks and community organizations to provide loans or maintain branches in their neighborhoods. Eventually, activists from across the country, working on similar issues, discovered each other and recognized their common agendas. From these localized efforts grew a national movement to address the problem of bank redlining.

In response to grassroots pressure from the emerging neighborhood movement, Congress (with the support of the Carter administration after 1976) sponsored a number of initiatives to promote community self-help efforts against redlining. These included two key pieces of legislation -- the Home Mortgage Disclosure Act (HMDA) of 1975 and the Community Reinvestment Act (CRA) of 1977.

In combination, HMDA and CRA provided an effective tool for local groups to push banks to invest in low-income and minority neighborhoods. HMDA provided the data needed to systematically

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Development," Challenge: The Magazine of Economic Affairs, Vol. 34, No. 6, November/December 1991.

analyze the banks' lending patterns (for housing, but not commercial loans). HMDA gave many community groups and university-based scholars -- and some local governments, daily newspapers, and other agencies -- the data to investigate geographic and racial bias in lending.

From 1977 through the late 1980s, federal regulators were asleep at the switch in terms of monitoring and enforcing the CRA. As a result, community reinvestment activities primarily involved "bottom-up enforcement" -- local campaigns between a community organization or coalition and a local bank. Only in the late 1980s did these local activities coalesce into a national presence. Thanks to the work of ACORN, CCC, and NPA -- three national community organizing networks -- these local efforts became building blocks for a truly national effort that has produced dramatic results in the past few years alone. Locally-crafted CRA agreements alone have catalyzed over $10 billion in bank lending and services over the years. But even more important, many banks are now much more pro-active in working with community organizations in successful neighborhood rebuilding partnerships.

These training centers and organizing networks have helped local organizations significantly expanded their capacity to identify redlining, work with local media, negotiate with lenders, persuade state and local governments to support their efforts through "linked deposit" policies and public-private lending partnerships, and work with CDCs to take advantage of new lending products. With funding support from several foundations and technical advise from these national networks and training centers, community groups were able to hire experts to help make sense of the HMDA data, publish reports, and expose systematic bank discrimination. Whereas in the past, most HMDA studies focused only on one bank or one city, groups such as ACORN -- with a base in neighborhoods in many cities -- examined bank practices in several cities to demonstrate that the problem is not confined to a few places. The Federal Reserve Bank began to respond with studies of its own.

These community groups and these organizing networks have gained the respect of the nation's mainstream media, who began to report the "redlining" issue with some regularity. (In fact, the Atlanta

Journal and Constitution won a Pulitzer Prize for its 1988 series, "The Color of Money").

It was through these networks -- acting on their own or at times in concert -- that Congress was pushed to strengthen both CRA and HMDA several times in the past several years. These were dramatic legislative victories against overwhelming political odds. A few years ago, these national networks, along with the community development intermediaries such as LISC, NCCED, and Enterprise, formed the National Community Reinvestment Coalition to work together to strengthen the community reinvestment agenda.

Indeed, the entire community reinvestment climate has changed dramatically in the past five years alone. Banks are now much more proactive in working with community organizations to identify credit needs and create partnerships to meet them. Regulators are much more pro-active in evaluating lenders' CRA performance and using regulatory carrots and sticks to insure compliance. Fulfilling its campaign pledge, the Clinton Administration has made the issue of redlining and community reinvestment by banks and insurance companies -- and support for community-based development -- a centerpiece of its urban policy agenda.

What were the key ingredients for success around community reinvestment?

First, it was an issue that affected a lot of people and was clearly linked to the economic and social conditions in urban neighborhoods.

Second, the HMDA law provided community groups with usable tools to identify the problem. It illustrates the importance of community organizations having access to key information.

Third, there were a series of organizing "handles" which gave residents a clear set of remedies at the local, state and national levels. These included local "linked deposit" laws, state "linked deposit" and CRA laws, and, of course, the federal CRA. So groups could organize, and achieve victories, on several fronts.

Fourth, local groups working on the same issue were able to communicate and learn from each other because of the existence of several national organizing networks and training centers. National groups such as ACORN, NPA and CCC helped expand the capacity of local community groups to use the CRA and HMDA to rebuild and revitalize neighborhoods. They did so by providing groups with training and by linking them together to make the federal government -- legislators and regulators alike -- more responsive to neighborhood credit needs.

Fifth, local groups had access to training and leadership development to empower them to stabilize their organizations in terms of membership and fundraising, form coalitions with a variety of groups (including church-based organizations, civil rights groups, non-profit developers, social service agencies, etc) that often crossed boundaries of race, income, and neighborhood; learn how to develop strategies for working on several issues simultaneously and building on small victories; develop a strategy for negotiate with lenders and government; and deal with the mass media.

Sixth, local groups had access to the expertise and technology to take advantage of the HMDA and CRA. To make these federal laws work, community groups have to learn how to use them. This usually involves having funds to hire experts, or train staff, in the computer skills needed to analyze the complex HMDA data and translate it into understandable reports for the general public. These community groups also need access to financial expertise in crafting local CRA agreements with lenders. In today's technological society, access to technology and financial expertise are critical for community groups to have a voice in dealing with the private sector and government around complex issues.

Tenant Organizing in Public Housing Developments

The strength and success of the grassroots community reinvestment movement stands in contrast to the organizing efforts in both public housing and HUD-assisted housing developments. Without doubt, there is a great deal of grassroots organizing among the nation's public housing and HUD-assisted housing tenants. Of course, we can point to some important success stories in developments across the country. But the cumulative impact of all these local tenant-led efforts has been marginal at best in terms of building strong, stable community organizations and in terms of making a significant impact on economic and social conditions in these developments and their surrounding neighborhoods.[15]

Public housing tenants have organized to improve the local housing authority's management (especially in making repairs and improving the physical condition of their developments); to deal with questions of security and public safety, including the epidemic of drugs and gangs in their developments; to start or expand job training, child care, counseling, and other human service programs in their developments; and to address environmental and public health hazards within and nearby their developments -- lead paint, toxic dumps, asbestos, and other concerns. Some public housing tenants used direct action and legal tactics to saving their homes from the wrecking ball. Some of these struggles have led tenant organizations to demand a stronger tenant voice in the day-to-day running of their housing, including the creation of resident management corporations and even tenant ownership.[16]

Yes, there are a growing number of tenant associations, residents councils, and tenant management corporations in public housing today. But overall, they represent only a handful of the nation's public housing developments. Many of the tenant groups that do exist are relatively weak in terms of leadership and organizational capacity -- such as widespread participation by residents, several tiers of leadership and subcommittees, regular elections, and so on. Quite a few could be categorized as "company unions," lacking the level of independence from the local housing authority management that makes such groups effective. Accountability structures between residents and the "leaders" is quite problematic in many situations. In only a few cities -- including Milwaukee, Boston, Kansas City, Los Angeles, Baton Rouge, and elsewhere -- have residents have formed citywide tenant councils that bring

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[15]See Langley C. Keyes, Strategies and Saints: Fighting Drugs in Subsidized Housing, Wash., D.C.: Urban Institute Press, 1992; and John Atlas and Peter Dreier, "From Projects to Communities: How to Redeem Public Housing," American Prospect, Summer 1992.

[16]Public housing is one of the arenas of American life where women are the most effective leaders. Female-headed families make up the large portion of public housing households. Women have taken on the key roles -- as caregivers and tenant organizers.

together leaders from different developments to negotiate their common concerns with the housing authority. And most of these citywide groups are quite fragile.

The state of resident organizing and participation in the nation's public housing is still extremely thin. In part this had to do with the overwhelming problems confronting the low-income residents of public housing. But we have enough successful examples of public housing tenant organizing to know that effective organizing is possible -- even during the 1980s, when public housing had few friends in high places (the federal government, the media, or foundations).

What's been missing is the ability to spread the lessons of success (as well as failure) from development to development in one city, and to share the lessons of success (and failure) from city to city to build a national infrastructure of public housing residents, who can become effective advocates for public housing in Washington, especially in terms of dealing with Congress. Organizing in the nation's public housing developments is simply too ad hoc and unfocused. Most tenant groups in public housing developments are not linked to broader organizations or networks. Few have the resources to undertake leadership training or build the capacity of their organization. They are not part of a sustained effort to create a new empowerment movement among public housing tenants.[17]

Even where local housing authorities recognize the importance of tenant organizing, the PHA staffs rarely have the mandate, or the training, to build an effective grassroots organization among the residents. Most tenant organizations lack the resources to hire staff. Few tenant leaders are trained in leadership skills and organization building. Few tenant groups have the capacity to link up with their counterparts in the same city, much less across the country.[18]

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[17]ACORN, the Center for Community Change, the Midwest Academy, and other networks and training centers have worked to build local tenant organizations in public housing, but this has been done on a somewhat hit-or-miss basis.

[18]Some of the new leaders in tenant management -- such as Kimi Gray and Bertha Gilkey -- have forged links with tenant groups in public housing developments in different cities. But this is no substitute for the kind of patient, day-to-day organization-building and leadership training that is necessary for real

Tenant Organizing in HUD-Assisted Developments

The situation is even more problematic among tenants in HUD-assisted (Section 8, 221 and 236) developments. In many areas, these developments are even more troubled than their public housing counterparts.[19] Tenants in some developments have organized to improve maintenance, fight crime, and gain a stronger voice in management. Because their landlords are private owners, not a public agency accountable to voters and open to greater scrutiny, they have even more obstacles to organizing.

In fact, some of the most effective tenant organizing during the past decade took place in HUD-assisted housing complexes over two issues: First, the potential termination of subsidies. Most projects built in the 1960s and 1970s had an escape clause for landlords which allowed them to pay off their HUD-subsidized mortgages after only 20 years. Second, the management and disposition of developments taken over by HUD as a result of default and foreclosure.

The "expiring use" issue snuck up on tenants groups and lawmakers, who had ignored this ticking time bomb until the mid-1980s, when the low-income stipulations began to expire. Renters in HUD-assisted developments realized that they could lose their homes unless they could stop landlords from taking advantage of this loophole in the law. With their backs to the wall, tenants in buildings across the country mobilized on two fronts -- locally and nationally.

Locally, organizers began to educate residents about the potential threat and to alert potential allies such as the local media, public officials, and housing activist groups. In some areas, local tenant groups organized regional alliances of tenants in at-risk HUD-assisted buildings. In Boston, the Massachusetts Tenants Organization and the Boston Affordable Housing Coalition took the lead. In Chicago, the Organization for the North East and the Lakeview Tenants Organization led the charge. The

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success.

[19] I am referring here to residents in HUD-assisted developments, not tenants with Section 8 vouchers or certificates.

Coalition for Economic Survival (CES) in Los Angeles, the Texas Tenants Union, the Community Service Society in New York City, and ACORN in St. Louis played similar roles. By the mid-1980s, when the first group of buildings began reaching their 20-year milestone, a few owners had already exercised their rights and raised rents to market levels. By 1987, in California alone, landlords removed 37 projects with 1,246 units out of federal subsidy programs.

In a few areas where many at-risk buildings were located (including Boston, Los Angeles, San Francisco, Chicago, and New York), these tenant organizations, along with non-profit community-based developers and other housing activists, formed task forces to develop strategies to preserve HUD housing. Many housing experts and some government agencies (such as the Community Economic Development Assistance Corporation in Massachusetts, or CEDAC) provided technical help to tenant groups in negotiating with landlords and government officials.

This tenant activism led some cities and states to pass laws to slow down the process.[20] It soon became clear, however, that tenants had little bargaining power with landlords so long as the federal law allowed owners to prepay their mortgages and raise rents. So tenant groups and their allies took the fight to the federal government.

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[20]For example, in 1987 in Boston, where as many as 9,200 units were potentially at risk in a hot housing market, the city government expanded its rent control law to include these buildings, but only if landlords opted out of federal subsidies to operate their buildings as market housing. This law served as a major disincentive to owners, since they would not be able to reap the windfall profits from huge rent increases or condominium conversions. In Burlington, Vt., when the owners of Northgate/Greenfield Apartments announced in early 1987 their intention to terminate the HUD subsidy on the 336-unit townhouse complex, the city government passed an ordinance to restrict the conversion of apartments to condominiums. The California legislature passed a law requiring owners to give tenants and local governments a one-year "early warning" if they intended to terminate their subsidy agreement. California also offers owners tax breaks if they continue to rent to low-income tenants; it also gives residents of federally-subsidized developments the first right to purchase their complexes if the owner prepays the mortgage. Pressured by the Maryland Low-Income Housing Coalition, tenant groups in Baltimore, and other housing advocates, the Maryland legislature passed a law that requires owners to give tenants an early notice, at least a year's lease following the notice, the first right to purchase, and relocation payments. At least ten other states -- including Rhode Island, Missouri, Minnesota, and Washington -- enacted similar laws.

Aided by the National Low-Income Housing Coalition, tenant groups from different cities formed a network to help pushed Congress to reform federal law to make it more difficult for landlords to terminate their subsidy agreements. Across the country, tenants organized demonstrations at owners' offices, persuaded journalists to write stories, and lobbied their Senators and Congressmembers. They found some allies in Congress, particularly from those cities where the a large inventory of at-risk buildings and where tenants and their allies were relatively well-organized. Tenant and housing activists argued that allowing owners to withdraw from the housing subsidies would push more low-income people into the streets and shelters. At least a dozen organizations -- owners associations, government agencies, housing advocacy groups, and others -- sponsored reports to estimate the magnitude of the problem and propose solutions.[21]

Tenants groups won a temporary victory in 1988, when Congress passed the Emergency Low Income Housing Preservation Act of 1987. The law imposed a three year moratorium on prepayments, through October 1990. It gave residents protections from immediate eviction and provided "breathing room" to organize while Congress tried to figure out how to resolve the conflict between landlords and housing activists and fashion a permanent solution. Owners of subsidized projects created a new group, the Assisted Housing Legal Rights Fund, which quickly filed suit to overturn the 1988 law limiting their options and their profits. Tenants kept the heat on Congress to permanently preserve the HUD-assisted housing inventory. While HUD Secretary Jack Kemp gave lip-service about "resident empowerment," some HUD staff refused to cooperate with tenant groups and their allies. For example, HUD refused to give tenants the names of owners who had filed their intent to pay off their mortgages, even though the

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[21]The studies sponsored by owners' groups minimized the problem and called for Congress to increase incentives (subsidies and tax breaks) to owners to encourage them to continue renting to the poor. Another study, conducted by MIT Professor Philip Clay for the Neighborhood Reinvestment Corporation in 1987, claimed that potentially millions of low-income renters could become homeless if the federal government did not find a way to preserve its affordable housing stock. Whatever their findings, however, each time one of these reports was released, it drew media attention to the problem and elevated the pressure on Congress to do something about it.

1987 federal law required it to do so. In some cities, however, grassroots protest and media attention forced reluctant HUD officials to make concessions. For three years, housing activists and developers lobbied to protect their interests.

In 1990, over the opposition of the Bush Administration and HUD, Congress enacted the Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA). The new law gave owners the option of remaining in the HUD program in exchange for additional financial incentives or selling their properties, with first option going to tenants associations and non-profit organizations. It provided planning funds for residents in these developments to come together to weigh the options and develop a plan for their housing complexes.

The bill required owners to give tenants and nonprofit groups the first option to purchase the property and even provided incentives to do so. The legislation provided funds to help tenant groups organize and develop a plan to own or manage their developments. The bill gave tenants additional safeguards, but it came at an enormous price. Essentially, Congress went along with the landlords' idea of offering additional subsidies and tax breaks to induce them to continue renting to low-income residents.[22]

The 1988 and 1990 federal laws, and the various local and state laws, give tenants expanded opportunities to come together to address their common problems and additional leverage to negotiate with owners. But the odds against resident success are still overwhelming. The law gives residents a

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[22]The struggle over the expiring use question was a clear test of the tenant movements' strength and effectiveness. The tenants' overall weakness compared with the political clout of the owners' lobby is evident in several aspects of the compromise legislation that was enacted. Congress guaranteed that owners would receive a "fair return" on their investment, even going so far as to establish a "fair return" formula. So long as the owner gets this fair return, the property is locked into low-income use, even if the property is sold. The legislation also allowed owners to raise rents, with HUD's approval, to levels that could undermine the ability of some residents to remain in their homes. The bill also included an important escape hatch. If the owner can provide that he/she is not getting this return -- and if HUD does not provide adequate subsidies to ensure the minimal level of profit -- the owner can pay off the mortgage and convert the property to market-rate housing.

narrow timeframe to organize and come up with a plan of action. Few tenant organizations have the resources and staff to do this effectively. In Los Angeles alone, for example, there are 158 HUD developments with over 10,000 units facing the "expiring use" deadline. The Coalition for Economic Survival (CES) has successfully provided technical assistance to help residents in several developments organize and, in several cases, purchase their complexes. CES has provided the technical assistance to help form a county-wide HUD tenants organization, the Los Angeles County Alliance of HUD Tenants.[23] This group has received funding from the Los Angeles city government to hire three organizer. CES itself has only three full-time staff members. But CES staff estimates that it would require 18 to 20 staffpersons to organize the residents in all the HUD-assisted buildings in Los Angeles facing the LIHPRHA deadline.

The LIHPRHA, like the CRA, is an important tool. But it will of little use to most of the tenants in Los Angeles -- or in any other city -- if they do not have the resources to mobilize, form organizations, develop the negotiating and organization-building skills to become a stable tenant association, hire experts to help them plan and weigh the options, and work with HUD to carry out its agenda of stronger resident participation and preservation of federally assisted housing.

Given the limited resources, the community-empowerment efforts of these resident organizations is quite remarkable. But the base is still quite small compared with the magnitude of the problem. Only in a few cities -- including Chicago, Los Angeles, Boston, and New York are they well-organized beyond individual developments. Moreover, the national networks which have worked with residents in HUD-assisted housing are not as experienced as, and more fragmented than, the community reinvestment networks and training centers. As the Los Angeles example illustrates, there is a need to expand the number of resident organizations in these developments, to provide technical assistance and training to

[23]The Los Angeles CAHT is, in turn, a member of statewide and national organizations of HUD tenants.

these groups, and to forge connections between resident organizations within the same city and in different parts of the country.[24]

The residents of "expiring use" developments faced the threat of losing their homes because the owners could make bigger profits with the buildings in the private marketplace. But some tenants faced the opposite problem -- they lived in HUD subsidized projects where the owners simply walked away. In many cases, these landlords simply neglected to maintain their buildings, while still collecting HUD subsidies. In some cases, they, abandoned their mortgage payments, putting them in jeopardy of foreclosure. Many HUD-assisted housing developments were in default on their mortgages. HUD was reluctant to foreclose on even the most troubled projects, because that would force HUD to take over the management and ownership of severely distressed projects. Nevertheless, during the 1970s and 1980s, HUD wound up taking over hundreds of developments, mostly in low-income ghetto areas. Secretary Cisneros has identified this problem as a major ticking time bomb in the coming years.

In a few cities, notably Boston, tenants in these buildings have mobilized, initially around day-to-day management and public safety concerns, but also over the ultimate disposition and ownership of their developments. In the early 1980s, tenants in several large Boston projects -- Warren Gardens, Marksdale Gardens, and Methunion Manor -- persuaded HUD to sell their developments to the residents, who formed cooperatives. Under tenant ownership, residents made substantial reports. They were among the best-run developments in the city. Their success convinced tenant groups in other developments to follow the same path. Nevertheless, when President Reagan took office in 1981, Secretary Pierce's solution was simply to auction off these developments to the highest bidder, which guaranteed that speculators and slumlords would wind up owning the complexes and receiving the HUD subsidies, with little regard for

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[24]In 1992 the loose network of tenants in HUD-assisted developments, initially brought together through the National Low-Income Housing Coalition, formed the National Alliance of HUD Tenants. So far its membership is relatively narrow, primarily based in a few cities, including Boston, Chicago, Los Angeles, and New York, although there are also member groups representing buildings in other parts of the country.

the residents.

Here, too, intermediaries have played an important role in helping residents organize to improve neighborhood conditions. The Community Builders (a regional nonprofit development intermediary), the Metropolitan Boston Housing Partnership (a public-private-community partnership that supports CDC-based development), and CEDAC (a state-funded technical assistance group), have worked with several neighborhood organizing groups to develop a comprehensive plan for Boston's sizeable inventory of HUD buildings.

In the late 1980s, a coalition of resident organizations, city and state government officials, and Boston business leaders waged a successful campaign to persuade HUD to stop the auction process and negotiate a transfer of 2,000 units in over 60 scattered buildings to neighborhood-based CDCs. Tenant organizers and their allies kept the heat on. Congressman Barney Frank convened public hearings to expose the problems. They garnered strong support from Governor Dukakis, Mayor Flynn, downtown business leaders, and Boston's Congressional delegation -- and considerable coverage in the Boston media -- which convinced HUD to stop the auctions. They insisted that HUD sell the properties to tenant groups or non-profit CDCs. Year after year, the tenants protested HUD's inaction, while the politicians and business leaders wrote letters and lobbied in Washington on the tenants' behalf.

In 1986, HUD agreed to sell 60 buildings with over 2000 units -- called the Granite Properties -- to eight CDCs, through the vehicle of the Boston Housing Partnership, a public-private partnership umbrella of Boston's business, political, and community leaders. HUD also agreed to pay for the long-neglected repairs and to continue the rent subsidies for low-income residents. The BHP then raised funds form local businesses and foundations to hire social workers and organizers, and to provide social services for the residents.[25]

[25] The MBHP has played an important role in helping expand Boston CDCs' capacity to undertake difficult rehabilitation and management tasks, including the repair and management of HUD properties. Beyond helping the CDCs with physical and financial tasks, however, MBHP has also raised funds to

Tenants in both public housing and federally assisted projects faced common problems and developed comparable strategies for addressing them. In both cases, residents sought greater voice in running their homes. The early success stories in tenant empowerment were triggered from the bottom-up, but the ability to sustain these early successes has been problematic. While there are many paths to tenant empowerment, it works best where tenants take the initiative and where they have access to resources to build strong organizations and leadership. This cannot be done on an ad hoc, project by project, PHA by PHA basis. It will require the same kind of strategic networking and training that the community-based development sector, and (to a lesser extent) the community reinvestment movement has built.

The previous administration gave a lot of lip service to the idea of tenant empowerment. But there is relatively little to show for all that rhetoric. The biggest weakness was the failure to recognize that resident ownership and management -- if its a something the residents want at all -- should be the final stage of an organizing process that involves mobilizing tenants around day-to-day issues like maintenance and crime, developing stable leaders, and winning steppingstone victories, so that when tenants get to manage or own their projects, they've won something worth owning. But the previous administration, looking for quick results, was unwilling to fund that kind of genuine grassroots empowerment.

Whether organizing a crime watch, a voter registration drive, a social service effort, or working to take on management tasks or even ownership of a subsidized development, one thing is always true.

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improve the <u>human relations</u> aspects of subsidized housing. For example, MBHP set up a Resident Resource Initiative program, which provides funding for resident organizing and human services, channeled through neighborhood-based empowerment groups and human service agencies. In the past few years, tenants in Boston's HUD-owned or -managed projects, and the same coalition of allies, have worked with HUD to fire incompetent management companies, repair substandard buildings, exterminate rodents, fix up vacant units, and sell these buildings to tenant groups or CDCs. The MBHP -- with support from the city government, local businesses, and local private foundations -- provided funds to help tenant groups hire organizations and consultants to help them address more immediate issues such as drugs, crime and code enforcement as well as to develop a long-term plan for their developments, including the possibility of resident management or resident ownership.

These efforts will likely fail unless tenants are well-organized and well-trained to assume complex organization-building and management tasks (including selecting and monitoring a private for-hire management firm). Tenants are not born knowing the best way to manage human resources. Private corporations spend millions of dollars to improve their employee management skills. Residents in subsidized housing developments need the same level of training and capacity-building.

VIII. Policy Recommendations

In terms of specific recommendations for federal policy to encourage effective community empowerment, here are some suggestions in three areas community empowerment: public and HUD-assisted housing; community crime prevention; general community improvement.

1. Public and HUD-Assisted Housing

The Administration has made significant headway in improving the regulations to encourage tenant organizing and residents councils in public housing. The Administration has also improved regulations to encourage resident empowerment in those HUD-assisted developments in the at-risk "expiring use" inventory. But these can be streamlined and improved to help insure that resident groups are democratic and effective.

(A) I would encourage the Administration to provide funding for technical assistance -- i.e. leadership and organization-building training -- to resident organizations in both public housing and HUD-assisted developments. These can be allocated through national, regional and local training centers and networks that have a demonstrated track record and experience in working with grassroots groups to achieve community empowerment -- some of which I identified earlier. Through an NOFA process, HUD can select a number of these training centers and networks to undertake this technical assistance effort. If possible, initial funding should be for at least three years -- sufficient time to expand capacity, train leaders, and show results. These intermediary groups, in turn, would identify tenant groups to work for and with. The program requirements and goals should be clear in terms of achievable results: a significant growth in the number of grassroots organizations with the capacity to address the social, economic and physical conditions of their developments. Tenant management and/or ownership would one of many possible outcomes, but it need not be the sina-qua-non of tenant empowerment.

By providing resources to these intermediaries as the locus of empowerment efforts in subsidized and public housing, HUD would not only be able to take advantage of their experience and track record, but also of the economies of scale that would allow them to develop new training materials specifically geared to public and subsidized housing -- videos, training manuals, workshops, and so on.

One of the goals of the program should not only be the strengthening of tenant organizations in specific developments, but the cross-fertilization of ideas and skills between developments in the same city and between tenant organizations in different cities and parts of the country. Training workshops and conferences that bring tenant leaders together would be encouraged.

(B) Tenants who wished to organize should have the clear right to do so, without interference from local housing authorities or owners of HUD-assisted developments. There needs to be a mechanism for recognizing tenant organizations as the legitimate voice of residents, a mechanism that comes with certain rights and responsibilities. One mechanism for achieving this goal would be for the Clinton Administration to either sponsor legislation, or revise its regulations, to provide residents in public housing developments and HUD-assisted developments (Section 8, 202, 221d, and 236) with a vehicle similar to the National Labor Relations Act -- in effect, a National Tenant Landlord Relations Act. To become a recognized tenant organization, the tenants group would have to win a majority of the votes of the residents in a development. An election would be held by secret ballot. HUD, or some third party (such as the American Arbitration Association or the League of Women Voters) would supervise the elections, similar to the NLRB's role in labor-management.

Once a tenant organization wins a supervised election, it becomes the recognized group vis-a-vis the local housing authority or the owner of the development. Both the tenants organization and the owner

(PHA or private) would be subject to certain rights and responsibilities in terms of the process of solving problems -- in terms of management, budgets, tenant selection and eviction, and so on, including the steps leading to resident management and ownership. Some elements of this process are already in place in the new regulations regarding resident councils and tenant management corporations. This process will lead to greater reciprocity and stronger partnerships. Experience shows, for example, that when tenant groups have responsibility for developing standards for eviction and tenant selection, they are often much tougher than the housing authority.

Tenant associations that win elections and become the official voice of the residents in the development should receive funding from HUD on a per capita or per unit basis -- in essence, a dues check-off. This funding would be used to hire staff and consultants, buy equipment, rent office space, and operate the tenant association. In addition to setting this funding floor, HUD can encourage tenant associations to raise additional funds through grassroots fundraising by providing matching funds based on some formula.

(C) Federal law should require that public housing residents should be represented on all local Public Housing Authority boards. These representatives should be selected by the tenants in some way. For example, representatives could be chosen through a direct election of all public housing residents in a city; or they could be selected by the Mayor or city manager or City Council from a list of nominees selected by the officially recognized tenant associations.

(D) Tenants in HUD-assisted housing should have some direct way to voice their concerns to HUD, which provides the subsidies to private owners, monitors the selection of management firms, and in general oversees a large inventory of scattered developments owned by a wide variety of landlords. Recognized tenant organizations in HUD-assisted developments should elect or appoint representatives to regional advisory boards that would meet regularly with the regional administrator or top official in the HUD local office. This is one way for HUD staff to stay informed about such matters as management, public safety, maintenance, and related concerns.

2. Community Crime Prevention

Many grassroots organizations have developed innovative ways to mobilize residents to address problems of neighborhood public safety -- drugs, gangs, and related issues. The Clinton Administration can help strengthen and expand these efforts by encouraging and funding community anti-crime efforts. Moreover, there is no need to reinvent the wheel. We have successful models upon which the Clinton Administration can build.

(A) The Administration's "community policing" effort, a major element of the recent anti-crime bill, is an important initiative to make our neighborhoods safer and better places to live, work, and invest. Simply putting more police on the streets, however, is a limited approach. Evidence suggests, however, that community policing as a crime prevention strategy works best when the community itself is well organized and can become an effective partner with local police departments. Unfortunately, the recent anti-crime bill has no provision for helping communities organize themselves to work with their police. The federal government -- through the Department of Justice, HUD, or jointly -- should create a national Community Crime Prevention Program as an adjunct to its community policing effort. In every city where federal funds are targeted to hire and train personnel to undertake communi policing, funds should also be directed to community groups to organize neighborhood anti-crime efforts in partnership with local police departments.

Similar to the 1970's Community Anti-Crime Program in LEAA, these funds would be targeted directly to community organizations who have the existing capacity or potential to mobilize residents and increase their involvement around public safety issues. HUD's drug elimination effort in public housing has some elements of this idea, but its focus is quite narrow in terms of both the approach and the constituency.

Community organizations should be able to develop neighborhood-based programs and working relationships with all segments of the community, including the schools, businesses, churches, and local government, including the police. Some of these community organizations will be multi-issue groups devoted to a wide range of community uplift efforts. Others will focus primarily or exclusively on public safety issues, although this issue should be broadly defined. Eligible activities should be quite inclusive. They could include:

o establishing neighborhood block clubs, crime watch, and security patrol initiatives;

o monitoring local courts to guarantee that drug dealers and other criminals (especially repeat offenders) get appropriate sentences and evaluating judges in terms of how they approach repeat drug offenders and other criminals in terms of sentencing;

o encouraging witnesses and victims to help law enforcement agencies identify and prosecute criminals;

o sponsoring intervention programs targeted at young people, including streetworker programs, "midnight basketball;" teen councils; peer counseling, and others;

o working with law enforcement officials to create a restitution program for first-time offenders;

o organizing neighborhood "take back the streets" campaigns and "drug-free" zones around schools;

o organizing anti-graffiti and neighborhood clean-up and beautification campaigns;

o working with city officials to improve street and park lighting, add speed bumps, set up "resident only" parking zones, and make other improvements to reduce crime;

o setting up "arson watch" programs to identify arson-prone buildings;

o sponsoring "take back the night" rallies and rape crisis counseling centers;

o identifying crack houses and working with police and city government to board up and rehabilitate these properties;

o working with local private and public agencies to create and expand drug prevention, education and counseling programs through schools, churches, and community centers;

o working with landlords to identify, evict, and prosecute tenants that are dealing drugs;

o working with local private and public agencies to create and expand drug treatment programs;

o working with law enforcement agencies to identify high-crime "hot spots" (apartment buildings, street corners, parks, bars) and targeting local government agency resources in these areas;

o working with local government agencies to improve code enforcement in substandard or abandoned buildings;

o working with nearby institutions (hospitals, universities, businesses) to improve lighting, security, and other measures;

o working with local government and police to identify and punish "johns" (clients of prostitutes) to rid the neighborhood of this activity;

o working with local, county and state government to direct more public resources toward these programs and to strengthen the laws to increase public safety.

(B) The federal government, through the Department of Justice, HUD, or jointly, should fund a Community Crime Prevention Technical Assistance program, channeled through national and regional intermediaries -- organizing networks and training centers -- with successful experience in community crime prevention. The DOJ is currently funding a small program of this type -- the Communities in Action to Prevent Drug Abuse program, through the vehicle of the National Training and Information Center (NTIC). Similar to the proposal for public and HUD-assisted housing developments, this program would provide training in organizational capacity-building, leadership development, and community crime prevention techniques. It would help local neighborhood groups from different cities and regions share experiences and skills and learn from each other and, in the process, provide the building blocks from a more coordinated national effort to focus public attention, and public and private resources, on this important problem.

3. General Community Improvement

There are many exciting community-based organizing activities that do not directly focus on the specific concerns of residents in public or HUD-assisted developments or on the specific problems of community crime prevention. Nevertheless, these organizations address a variety of important concerns to the residents of America's low-income communities. They are working on the same issues that are key to the Administration's agenda -- public health, environmental justice, affordable housing, community investment, jobs and economic uplift, fair housing and discrimination, and other issues.

Here, too, what is needed is direct operating support for these organizations to undertake basic community improvement efforts and allied programs. Two existing programs provide something of a model. In 1983, Congress authorized the Neighborhood Development Demonstration Program (NDDP) and appropriate funds in 1985. Since then, the NDDP has provided direct support to community-based organizations (a maximum of $50,000 a year). These funds, in turn, helped community organizations to raise additional private funds for neighborhood development activities. Through the NDDP, 206 organizations have received 286 NDDP grants for housing, economic development and neighborhood improvement projects. The success of the "demonstration" program led Congress last year to enact the

John Heinz Neighborhood Development Program -- a permanent version of the NDDP.[26] Funding for the NDDP was quite small -- $2 million a year. Last year there were about 280 applications and about 40 awards. The Clinton Administration supported higher funding levels for the Heinz program -- $5 million for FY 1994.

Since 1985, the Environmental Protection Administration (EPA) has sponsored the Technical Assistance Grant Program (TAG) as part of the Superfund environmental clean-up effort. Through TAG, community groups receive funding (up to a maximum of $50,000) to assist them to evaluate Superfund sites. This highly complex scientific process means that community groups must have access to scientific expertise to understand the extent of environmental harm, the magnitude of the abatement process, and the local impact of Superfund clean-up activities. These groups use the TAG funds to hire experts to evaluate government and private studies that address these issues. EPA is currently drafting recommendations for amending and strengthening the Superfund law; one of its key ideas is for more and earlier community participation in the Superfund process, including working with communities in proposing land uses for Superfund sites following the clean-up process. There are over 35,000 Superfund sites, of which about 1200 sites are on the Superfund National Priorities List (NPL), but only 133 TAGs have been awarded by EPA since the program's inception. Expanding the TAG program -- perhaps by making it an entitlement for communities around NPL sites and by changing the NPL criteria to put more inner city areas on the list -- would help carry out the Administration's environmental agenda and its community empowerment agenda.

Elements of both HUD's Heinz Neighborhood Development Program and the EPA's Technical Assistance Grant Program should be incorporated into a Community Empowerment Partnership Program through which the federal government would provide support for community-based organizing efforts.

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[26] Patterns of Success: How the Neighborhood Development Demonstration Program Builds Local Capacity, Wash., D.C.: Community Information Center, November 1993.

Similar to my proposals for public/subsidized housing and community crime prevention, the Community Empowerment Partnership Program would have two key components:

(A) First, federal government (most reasonably, through HUD) would fund national and regional intermediary training centers and organizing networks to provide Technical Assistance to community based organizations. This approach would encourage shared skill-building and coordination between community groups in different neighborhoods of the same city and between community groups in different cities and parts of the country. It would also promote the creation and dissemination of training materials, conferences, and other key components of successful training, leadership development, and organizing-building. Through an NOFA process, HUD could identify those training centers and networks with the capacity to undertake this process.

(B) Second, the federal government (through HUD) would provide direct funding to community-based organizations who are engaged in a wide variety of community improvement efforts, but only those who contract with one of the national training centers/networks that HUD has identified as competent to provide technical assistance.[27] One way to do this would simply be to expand the Heinz Neighborhood Development Program in terms of increasing its overall funding level and making community organizing an eligible activity. HUD should work closely with the training centers/networks to identify groups with the potential for success in terms of organization building and leadership development. The range of issues and activities could be quite broad, including:

o Neighborhood housing conditions, such as code enforcement, abandonment, tenants rights, evictions, zoning, court monitoring (involving code enforcement, evictions), arson, and related matters;

o Fair housing and fair lending, including undertaking "testing" for housing or lending discrimination, utilizing HMDA data to monitor lenders' performance in meeting community credit needs, negotiating community reinvestment agreements with lenders, and providing education and counseling to neighborhood residents regarding housing and mortgage programs (such as organizing "bank fairs" and

[27] In any given year, HUD may not be able to fund all of the competent intermediaries -- training centers and organizing networks -- to provide technical assistance to community organizations. Nevertheless, HUD's direct grants could be targeted to groups working with any HUD-approved networks or centers, regardless of whether they are receiving HUD funds at that time.

sponsoring community education programs); working with local lenders and government agencies to provide free check-cashing services for AFDC, SSI, and Social Security recipients.

o Education around such public health matters as drug, tobacco and alcohol prevention. Initiatives might include reducing the number of billboards in a neighborhood promoting cigarettes or alcohol; working with local schools to develop education programs around smoking, drug use and alcohol; reducing the number of liquor stores in a neighborhood; organizing to pass legislation and regulations to create "smoking-free zones" in public buildings, restaurants, and other areas.

o Utilization of eligible programs, such as public education and outreach efforts to increase participation of people eligible for the Earned Income Tax Credit, food stamps, WIC, job training, emergency food, and other programs.

o Environmental, transportation, and energy concerns, such as reducing toxic emissions, fighting incinerator sitings, and eliminating toxic waste sites; working with local transportation agencies and private firms to sponsor ride-sharing programs, neighborhood recycling programs, lead paint abatement; "life-line" rate schedules for low-income and elderly consumers; neighborhood beautification, anti-graffiti, and mural programs targeted at young people; and community garden programs and farmers market programs in low-income neighborhoods.

o Education and youth programs, such as recreation and arts programs, peer counseling, school-based management, streetworker programs, and parent involvement in school governance.

o City services, such as improving garbage pick-up, snow-removal, traffic safety, park maintenance, street repairs, and related matters, including joint ventures with (and out-sourcing of city services to) community-based non-profit organizations.

o Economic development, such as "linked development" policies, job retention, public financing of privately-sponsored projects (such as sports complexes), and neighborhood job agreements.

4. Program criteria

These proposals to expand community-based organizing efforts must be viewed as part and parcel of the larger agenda of improving economic and social conditions in our urban areas. Thus, strong consideration should be given to the following matters:

(A) Focus on Organizing Groups. Community organizing groups are a special kind of community institution. Careful attention must be given to make sure that only bona fide organizations are eligible. Although the group may engage in physical development and/or service delivery, its primary activity should be the mobilization and empowerment of neighborhood residents. They should be non-profit organizations and not part of any local government or government-controlled entity. The organization's governing board and leadership should be democratically elected from its membership. There should be regular meetings and accountability mechanisms. Although community organizations may work in economically diverse neighborhoods, low-income people should be well-represented on the community policing, court sentencing, and other activities should be encouraged.[32]

(E) Build Alliances Across Income and Race. Recent discussions of urban conditions have focused attention on the social, economic, and political isolation of the nation's inner city poor.[33] Low-income people need to develop strong organizations and leadership to help overcome this isolation. But they also need to build alliances with moderate-income people who share common concerns about the condition of their neighborhoods, families, and schools, and the condition of the nation's economy. It is often difficult to find issues and develop strategies that cut across the boundaries of income and race, but some of the most successful community organizations have done so. Federal support for community-based organizing should recognize the importance of both empowering the poor and building alliances with those only a step or two above poverty.

(F) Target Distressed Neighborhoods in Urban and Suburban Settings. Secretary Cisneros has identified the "interwoven destinies" of America's cities and suburbs. A growing body of research has shown that suburbs cannot be healthy if the central cities are decaying.[34] Equally important, many

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[32]Citizen monitoring can be an important took in a community organizing strategy, but it is not, on its own, a substitute for community mobilization. For example, a community group that monitors HMDA data should also be engaged in mobilizing residents around banking services; a group that monitors CDBG or HOME funds should also be engaged in organizing residents around community improvement so that these funds are used effectively. For a discussion of the successful Citizens Monitoring Project that focused on the CDBG program in the 1970s, see Nick Kotz, "Citizens as Experts," Working Papers, March/April 1981.

[33]See, for example: William J. Wilson, The Truly Disadvantaged, Chicago: University of Chicago Press, 1987; Lawrence Lynn and Michael McGeary, eds., Inner City Poverty in the United States, Wash., D.C.: National Academy Press, 1991; Christopher Jencks and Paul Peterson, eds., The Urban Underclass, Wash., D.C.: Brookings Institution, 1991.

[34]Larry Ledebur and William Barnes, All in it Together: Cities, Suburbs, and Local Economic Regions, Wash, D.C.: National League of Cities, 1993; Neal Peirce, Citistates: How Urban American Can Prosper in a Competitive World, Arlington, Va.: Seven Locks Press, 1993; Joseph Persky, Elliot Sclar and Wim Wiewel, Does America Need Cities?, Wash., D.C.: Economic Policy Institute and U.S. Conference of Mayors, 1991; Hank Savitch, "The Ties that Bind," Economic Development Quarterly, 1992; Elliot Sclar and Walter Hook, "The Importance of Cities to the National Economy;" Carol O'Cleirecan, "Cities' Role in the Metropolitan Economy and the Federal Structure;" and Peter Salins, "Metropolitan Areas: Cities, Suburbs, and the Ties that Bind," in Henry Cisneros, ed, Interwoven

so-called "suburbs" have social, economic and demographic conditions that are similar to those in our inner city neighborhoods. The artificial boundaries between cities and suburbs -- particularly the inner-ring suburbs -- must be broken down. One way is to encourage residents of distressed suburban communities to organize and find common ground with their counterparts in the inner cities. This doesn't mean providing funds for affluent suburban neighborhood associations to promote NIMBYism; it means identifying troubled low-income neighborhoods in places like Compton, California, Harvey, Illinois, Somerville, MA., and other communities. Funding formulas and targeting should not focus exclusively on low-income neighborhoods in central cities, but be flexible enough to identify areas outside large inner cities.

(G) Help Improve Media Coverage of Community Initiatives. The media play an important role in either enhancing or thwarting community-based problem solving.[35] For the most part, the nation's mainstream media treat our urban neighborhoods as cesspools of social problems. In doing so, they distort reality, exaggerate our urban ills, undermine the public's will to address these problems, and inadvertently sabotage efforts by government, community organizations and the private sector to forge solutions. With some important exceptions, they generally ignore or trivialize the community-building efforts of neighborhood groups and the policy efforts of government. Community groups can help improve the media's coverage of the urban condition and community-based efforts to solve urban problems.

As part of its community empowerment initiative, the Clinton Administration should help community organizations educate the mainstream media about the realities of urban neighborhoods and community-based efforts to solve problems. Part of all training programs for community organizations

Destinies: Cities and the Nation, New York: W.W. Norton, 1993.

[35]In his speech to the American Newspaper Publishers Association, May 6, 1992, in New York City -- a week after the Los Angeles riots -- Henry Cisneros discussed the media's responsibility to address urban problems.

should include the topic of dealing with the local media.[36] Equally important, the federal government should help community groups forge partnerships with local journalism schools. Jointly they could sponsor workshops for journalists on urban issues and community-based problem-solving. They could undertake content analyses of print and broadcast news coverage to help identify institutional blind spots. They could sponsor walking tours for reporters and editors of their neighborhoods to point out positive problem-solving efforts that could become topics for news stories. They could encourage the media to give community organizations a regular voice through op-ed columns and special pages. (The Los Angeles Times does this now). They could sponsor awards for "best" and "worst" reporting on neighborhood issues.[37]

(H) Promote Community Access to Technology and Expertise. For community organizations to be effective problem-solvers, they must have access to expertise and technology. These factors should not be considered after-thoughts, but key components of a community organization's operating budget. They need funds to hire scientific experts who can help evaluate Environment Impact Statements, HMDA data, housing rehabilitation and financing estimates, architectural design and zoning guidelines, utility company documents involving rate structures, and related matters. Community organizations need to have access to computers for desk-top publishing for newsletters and other forms of communication, for research (such as Census, HMDA and crime incidence reports), and to compile membership lists. They should be able to tap into on-line programs to get information, like HandsNet. They should be able to use videos and local Cable TV to enhance their community education and training efforts.

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[36] A number of training centers and university-based institutions have successful track records in this area. Boston College sponsors Media Research and Action Project to train community organization leaders how to deal effectively with the media. Its co-director, Charlotte Ryan, recently wrote a book on the subject: Prime Time Activism: Media Strategies for Grassroots Organizing, Boston: South End Press, 1991.

[37] The National Housing Institute, for example, works with local community housing groups to identify examples of first-rate housing reporting and issues "Housing Journalism Awards" to exemplary reporters and publications. These are described in Shelterforce, NHI's bimonthly publication.