# 6. RESTORING THE AMERICAN COMMUNITY

*We said in 1991 we would offer opportunity for all, demand responsibility from all, build a stronger American community. We said that this era requires a Government that neither attempts to solve problems for people, nor leaves them alone to fend for themselves. Instead, we envision a Government that gives people the tools to solve their own problems and make the most of their own lives . . . I intend to spend the next four years doing everything I can to help communities to help themselves, to educate all Americans about what is working, and to create, in the process, a national community of purpose.*

President Clinton
December 11, 1996

Some American communities have grown disconnected from the opportunity and prosperity of their States, their regions, their Nation, and the global economy. The polarization of communities—isolating the poor from the well-off, the unemployed from those who work, and people of one race or ethnicity from others—frays the fabric of our civic culture and depletes the strength of our economy.

The problem affects all Americans; we cannot and should not wall ourselves off from it. If we do not address the problem in our communities, connecting residents of distressed neighborhoods and rural areas to the jobs and opportunities of the regional marketplace, the Nation cannot compete and win in the global economy.

While poverty overall is down in America, the concentration of urban poverty has risen in recent decades (see Chart 6–1). From 1970 to 1990, the number of people living in areas of concentrated poverty (where over 40 percent of the residents are poor) grew from 3.8 million to 10.4 million.[1] The share of people living in our 100 largest cities who were concentrated in these extreme-poverty neighborhoods also rose—from five percent in 1970 to eight percent in 1980 to 11 percent in 1990. In such neighborhoods, social conditions are bleak.

- Over 60 percent of families with children are headed by single women, compared to under 20 percent in non-poverty neighborhoods.
- Over half of all adults have less than a high school education, compared to under 20 percent in non-poverty neighborhoods.
- Over 40 percent of working age men are not working, compared to just over 19 percent in non-poverty neighborhoods.

Poverty also remains a persistent problem in rural America. Of the 765 rural counties with poverty rates of at least 20 percent in 1990, 535 had such poverty rates in 1980, 1970, and 1960. Because they often live in remote areas, and do not live near one another, rural residents often have a hard time receiving critical services or connecting themselves to urban and suburban centers of economic activity.

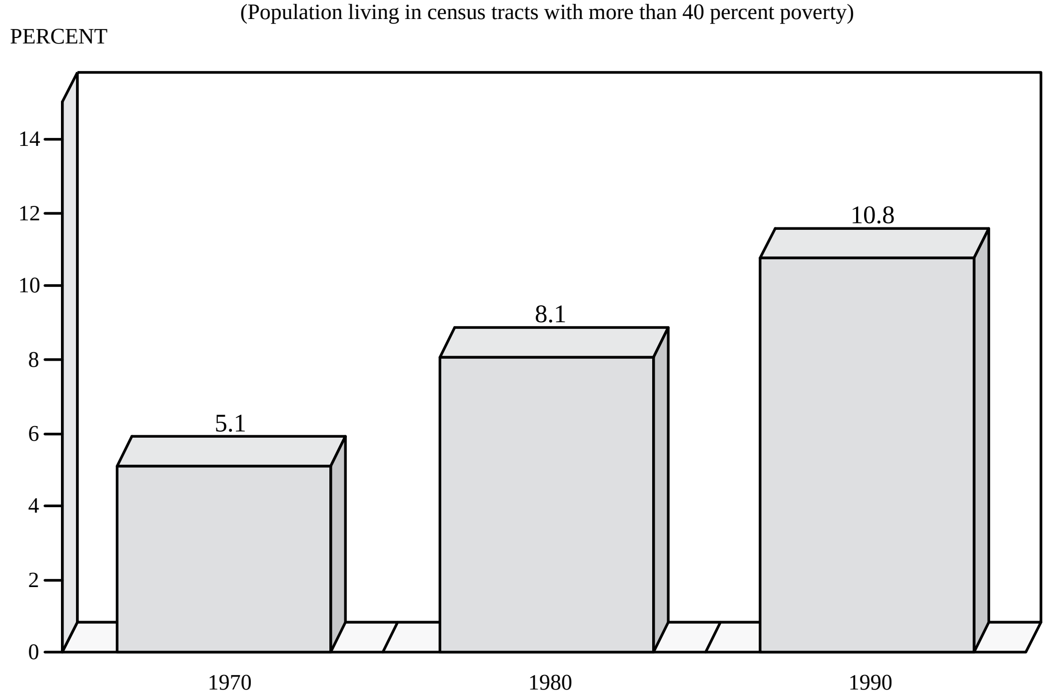
On the other hand, the 1990s have brought signs of progress—in alleviating poverty and creating opportunity both across the Nation as well as in the isolated areas in which the obstacles are so imposing. Across the Nation, poverty, welfare, and inequality are all down, while incomes and homeownership are up. In the last four years, the economy has created over 11 million jobs and record numbers of small businesses, bringing new hope and opportunity to millions of Americans.

The Administration recognizes, however, the barriers that still stand in the way of work and self-sufficiency for many poor Americans, and it proposes important steps to address them and to provide more opportunity.

[1] The President's Urban Policy Report, 1995.

**Chart 6-1. CONCENTRATION OF POVERTY IN URBAN AREAS REACHED A 30-YEAR HIGH IN 1990**

(Population living in census tracts with more than 40 percent poverty)




Source: U.S. Census data for 1970, 1980, and 1990, as compiled by John Kasarda, Urban Underclass Database Machine Readable Files, Social Science Research Council, New York, 1992 and 1993.

In particular, communities need help to attract the kind and amount of private investment that could spur their revitalization. Although Federal programs can provide support, solutions must come from the community. As a result, the budget proposes to create opportunities and offer incentives for individuals and businesses to participate directly in addressing local problems.

### National Service

National service is rooted in the American tradition of neighbor helping neighbor to build communities, reward personal responsibility, and expand educational opportunity. The Corporation for National and Community Service, established in 1993, encourages Americans of all ages and backgrounds to engage in community-based service, addressing the Nation's educational, public safety, environmental, and other needs to achieve direct and demonstrable results. In doing so, the Corporation fosters civic responsibility, strengthens the ties that bind us together as a people, and provides educational opportunity for those who make a substantial commitment to service.

The budget proposes $809 million for the Corporation, a 31-percent increase over 1997, with the increase targeted to the President's America Reads initiative—an effort through which volunteer tutors will help children read well and independently by the third grade. Along with support from the Departments of Education and Health and Human Services, the Corporation's funding will finance 11,000 AmeriCorps tutor coordinators and logistical support to help recruit, organize, and manage an army of a million volunteers who will tutor over three million children—from kindergarten through third grade—after school, on weekends, and during the summer. Every Corporation program will participate in this effort. America Reads builds on the demonstrated success of national service in helping to solve real problems.

AmeriCorps, the Corporation's signature initiative that includes Volunteers in Service to America (VISTA) and the National Civilian

Community Corps, has proven cost-effective. Investment in AmeriCorps members returns $1.60 to $3.90 for each dollar invested, according to independent evaluations. AmeriCorps enables young Americans of all backgrounds to serve in local communities full- or part-time, generally for at least a year. In return, they earn a minimum living allowance set at about the poverty level of a single individual and, when they complete their service, they earn an education award to help pay for postsecondary education or repay student loans. About 70,000 individuals will have participated in AmeriCorps in its first three years, and the budget supports an AmeriCorps program of about 35,000 members.

Among other national service programs:

- Learn and Serve America grants help school districts and communities engage youth to serve their communities and learn citizenship. The budget proposes to fund opportunities for almost 900,000 school-age youth.

- The National Senior Service Corps engages senior citizens—an untapped resource with time, talent, and energy to meet community needs. The budget funds the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Program, enabling nearly 600,000 older Americans to serve.

Corporation programs strengthen communities in several ways. AmeriCorps, for example, is run by national, State, and local organizations such as Habitat for Humanity, the Christian Children's Fund, the American Red Cross, the National Coalition of Homeless Veterans, the YMCA, and local United Ways across the country. These institutions select AmeriCorps members to work alongside the men and women already working to solve problems at the local level. AmeriCorps members provide a regular source of service that most volunteers, with their own time constraints, cannot offer. AmeriCorps members also recruit traditional, unpaid volunteers, then help organize and manage these volunteers as they perform direct service.

The Corporation operates in a decentralized fashion, working with bipartisan commissions that the Nation's governors appoint to carry out service programs. The commissions run competitions to determine what programs will participate, and States manage and oversee them. In the Learn and Serve program, State education agencies set priorities and resource allocations for service learning programs. In the National Senior Service Corps, communities define the activities that Senior Corps members will conduct.

Most important of all, national service participants are getting things done.

- In one Ohio project, nine AmeriCorps members conducted home visits with 1,449 students. As a result, school attendance increased, more students applied to college than were originally planning to, and more parents were involved in their children's education.

- In California, 12 AmeriCorps members tutored 230 students, and drop-out rates fell from 50 to 20 percent. Teachers also noted improved attention and behavior among students.

- In Olympia, Washington, three teams of retired volunteers tutored 400 students who were reading below grade levels and almost all were reading at their appropriate grade level by the end of the year.

### Empowerment Zones (EZs) and Enterprise Communities (ECs)

As part of his 1993 economic program, the President proposed, and Congress enacted, the Empowerment Zones and Enterprise Communities program. Under it, communities develop a strategic plan to help spur economic development and expand opportunities for their residents, and in return they receive Federal tax benefits, social service grants, and more flexibility in how they use Federal funds.

EZs and ECs are parts of urban or rural areas with high unemployment and high poverty rates. For EZs, the Federal Government provides tax benefits for businesses that set up shop, and grants to community groups for job training, day care, and other purposes. For ECs, the Government provides grants to community groups for the same array of purposes. Both EZs and ECs can apply for waivers from Federal regulations, enabling them to better address their local needs.

The 1994 competition for the first round of EZ and EC designations generated over 500 applications and created new local partnerships for community revitalization—even in communities that were not chosen. The 105 selected communities made well over $8 billion in private-public commitments (aside from the promised Federal resources). In the six urban EZs, the private sector has made or committed over $2 billion in new investment, bringing greater economic opportunity to those cities. One of the six, Detroit, has announced over 21 private developments in its zone, with one linen and supply manufacturer announcing a $5.5 million expansion over the next two years that will create over 100 jobs for zone residents.

But many communities that were not designated as EZs or ECs lack the seed capital to begin their revitalization efforts. Thus, in last year's budget, the President proposed a second round of EZs/ECs to stimulate further private investment and economic opportunity in distressed urban and rural communities and to connect residents to available local jobs. Because Congress did not act on the proposal, this budget again proposes a second round of EZs/ECs.

The second round would again challenge communities to develop their own comprehensive, strategic plans for revitalization, with input from residents and a wide array of community partners. The Administration would invest in communities that develop the most innovative plans and secure significant local commitments. The second round would build on the President's "brownfields" tax incentive, which would encourage businesses to clean up abandoned, contaminated industrial properties in distressed communities. This round would also offer a competitive application process that would stimulate the public-private partnerships needed for large-scale job creation, business opportunities, and job connections for families in distressed communities. (For more information on the brownfields program, see Chapter 3.)

The Administration proposes to seek 100 new designations, with communities receiving a combination of tax incentives, direct grants, and priority consideration for funds from Federal economic development programs and for waivers of Federal requirements from the President's Community Empowerment Board, chaired by Vice President Gore.

**Community Development Financial Institutions (CDFIs)**

Proposed by the President in 1993 and created a year later, the CDFI Fund is designed to expand the availability of credit, investment capital, financial services, and other development services in distressed urban and rural communities. By stimulating the creation and expansion of a diverse set of CDFIs, the Fund will help develop new private markets, create healthy local economies, promote entrepreneurship, restore neighborhoods, generate tax revenues, and empower residents.

CDFIs provide a wide range of financial products and services, such as mortgage financing to first-time home buyers, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and basic financial services. CDFIs also include a broad range of institutions—e.g., community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. These institutions, not the CDFI Fund, decide which individual projects to finance.

The budget proposes $125 million for the CDFI Fund, $75 million more than in 1997, and gradual increases each year to bring the five-year total to $1 billion by 2002. Private sector interest in the program has dramatically exceeded expectations. In 1996, the CDFI Fund received requests for $300 million in assistance—about 10 times what was available for the first round—from 270 new and existing CDFIs. Of these applicants, the CDFI Fund selected 32 institutions, serving 46 states and the District of Columbia, to receive $37.2 million in financial and technical assistance. In addition, the Fund awarded $13 million to 38 traditional banks and thrifts for increasing their activities in economically distressed communities and investing in CDFIs.

Additional resources would enable the Fund to implement a new initiative to support private institutions that provide secondary markets for CDFIs, leveraging public resources with private capital. This initiative would increase the resources to provide incentives, through the Bank Enterprise Award program, for traditional banks to expand their community development lending and support local CDFIs. The funds also would substantially enhance the CDFIs' capacity to take advantage of coordinated, multi-faceted community development efforts, such as EZs and ECs.

A similar program at the Department of Housing and Urban Development (HUD), the Community Empowerment Banking Initiative, also helps economically distressed neighborhoods establish financial institutions. Through a competitive process, the cities of Washington and Baltimore, and a six-county area in rural Mississippi, received funding for empowerment banks in 1997. These recipients will use $20 million as seed money and try to leverage much larger investments from conventional banks, foundations, non-profit groups, investors, and residents. Area residents and businesses will have controlling interest in the banks by purchasing affordably priced stock.

Finally, the budget proposed $100 million in non-refundable tax credits that the CDFI Fund would allocate among equity investors in community development banks and venture capital funds. Investors could take the credit—up to 25 percent of their investments—in the year they invest. This initiative should help leverage over $1 billion of private investment in distressed urban and rural communities.

### Federal Relationship With Communities

The Administration has worked to give communities the flexible tools they need to develop affordable housing and revitalize their economies.

Hoping to reverse a decline in the rate of homeownership, for instance, the Administration in 1994 entered into an unprecedented partnership with 58 key public and private sector organizations to form a National Homeownership Strategy.

The partners are reducing the barriers to homeownership by lowering mortgage closing costs and down payment requirements; by simplifying the process of financing home purchases and repairs; and by opening markets for women, minorities, central-city homebuyers, and others traditionally locked out of the conventional lending markets. Coupled with a stable economy and low interest rates, this initiative has helped the Nation reach an all-time high national homeownership rate. The rate is now 65.6 percent—its highest level in nearly 16 years—and 4.4 million Americans have become homeowners in the last four years, including record numbers of minorities.

For housing programs in general, HUD has focused on initiatives that "build from the ground up"—giving communities the power and responsibility to assess their housing and economic development needs, and to tailor their responses accordingly. HUD has paid particular attention to streamlining and simplifying Federal requirements in exchange for demanding a higher level of performance.

In addition, the Administration has worked closely with Congress to advance the most profound changes to public housing in over a generation. This effort reflects HUD's four-part transformation agenda:

- Replace the most dilapidated, distressed developments with smaller-scale, affordable housing and portable housing vouchers;
- Restore management excellence to housing agencies that are systematically troubled;
- Provide incentives for tenants to become self sufficient by rewarding work, and connecting them to educational and employment opportunities; and
- Place conditions on public housing residency through tougher occupancy and eviction rules.

The budget builds on the progress to date by supporting efforts to demolish 54,000 of the worst public housing units in the next three years and, rather than operate or modernize those units, provide portable subsidies to residents and construct a limited amount of mixed-income housing. Portable subsidies, now held by nearly 1.5 million households, give recipients a greater range of housing and neighborhood choices, reducing the isolation of poor families and the concentration of poverty (see Chart 6–2).

But, because their needs can be so different, no single approach will help both urban and rural communities. Nor, in fact, will any single approach help all rural areas. The Administration had proposed giving States, localities, and Tribes more flexibility in how they use the community and economic development assistance they receive from the Agriculture Department (USDA). In last year's Farm Bill, Congress adopted the proposal as part of the new Rural Community Advancement Program (RCAP), thus combining 12 separate USDA programs into Performance Partnerships in which the Federal Government provides more flexibility in exchange for requiring more accountability for how the money is spent. The budget proposes $689 million for the RCAP, which also would give States block grants for rural community and economic development.

### Government-to-Government Commitment to Native Americans

The Administration continues to strengthen the Government-to-government relationship with Native Americans.

In the past year, the Administration proposed steps to advance and protect Tribal interests; negotiated an historic settlement to the century-old land dispute between Navajos and Hopis; and fought attempts to cut Tribal funding and undermine Tribal sovereignty. For 1998, the budget proposes $6.5 billion, six percent more than in 1997, for Government-wide programs that address basic Tribal needs and encourage self-determination (see Table 6–1).

**Chart 6-2. HOUSING VOUCHER RECIPIENTS ARE LESS LIKELY TO LIVE IN HIGH POVERTY NEIGHBORHOODS THAN ARE RESIDENTS OF PUBLIC HOUSING**

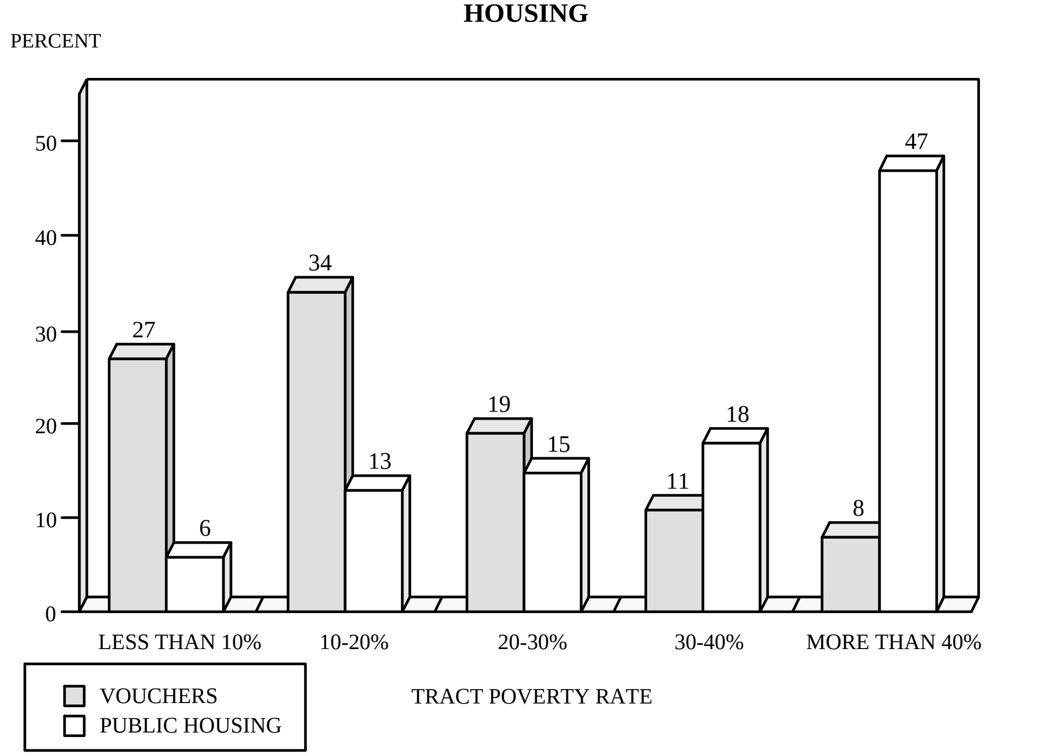


**Table 6–1. GOVERNMENT-WIDE NATIVE AMERICAN PROGRAM FUNDING**

(Budget authority, dollar amounts in millions)

| | 1993 Actual | 1997 Estimate | 1998 Proposed | Percent Change: 1993 to 1997 | Percent Change: 1997 to 1998 |
|---|---|---|---|---|---|
| BIA | 1,647 | 1,607 | 1,732 | –2% | +8% |
| IHS [1] | 2,022 | 2,342 | 2,412 | +16% | +3% |
| Subtotal, BIA/IHS | 3,669 | 3,949 | 4,144 | +8% | +5% |
| All other | 1,833 | 2,138 | 2,309 | +17% | +8% |
| **Total** | **5,502** | **6,087** | **6,453** | **+11%** | **+6%** |

[1] IHS program level includes both budget authority and Medicaid, Medicare, and private insurance collections.

The Interior Department's (DOI) Bureau of Indian Affairs (BIA) and the Health and Human Services Department's Indian Health Service (IHS) comprise two-thirds of Federal funding for Native American programs. For the BIA, the budget proposes $1.7 billion, eight percent more than in 1997, to help improve the living conditions on reservations, promote Tribal self-sufficiency, and continue to meet the Federal trust responsibility to Native Americans. Over 90 percent of BIA operations funding goes for basic, high-priority reservation-level programs such as education, social services, law enforcement, housing improvement, and natural resource management.

The budget also would enable DOI's Office of Special Trustee to continue to improve the management of Indian trust funds. In December 1996, DOI sent a report to Congress that outlined legislative settlement options for resolving disputed balances in Tribal trust accounts. For any settlement, the Administration is determined to achieve fairness and justice with respect to these accounts. DOI will continue consulting with Tribes on settlement options and submit a follow-up report to Congress this Spring.

For the IHS—whose clinical services are often the only source of medical care available on remote reservation lands—the budget proposes $2.4 billion, three percent more than in 1997. Along with higher funding, IHS and the Health Care Financing Administration have worked together to enhance IHS' ability to receive Medicare and Medicaid reimbursements, thus helping to ensure that IHS facilities provide quality medical care. The budget also allows Tribes to continue taking greater responsibility for managing their own hospitals. And the budget invests in construction to replace two antiquated IHS facilities—Ft. Defiance on the Navajo reservation and Keams Canyon on the Hopi reservation—thereby helping IHS provide high-quality medical services to Native Americans.

BIA and IHS will continue to promote Tribal self-determination through local decision-making. Tribal contracting and self-governance compacting now represent half of the BIA operations budget, and over a third of the IHS budget. Self-governance compact agreements, which give Tribes greater flexibility to administer Federal programs on reservations, will likely grow in number to over 70 in BIA in 1998, a 40-percent increase from 1997, and to over 35 in IHS.

Finally, the Administration continues to stress the spirit of consultation and recognition of the unique status of Native Americans. In August 1996, Tribal leaders attended the second annual White House meeting—marking the anniversary of President Clinton's historic April 1994 meeting with over 300 Tribal leaders. At last year's meeting, the First Lady and three Cabinet officials highlighted progress on improving Government-to-government relations with Tribes and assisting the Native American community. In addition, the Administration unveiled a number of initiatives to improve Federal programs for Tribes.

### The District of Columbia

The Nation's capital, which should serve as a symbol of pride to all Americans, has fallen on hard times. It faces not only serious budget problems, but even serious obstacles to providing the most basic services to its residents.

But no simple solution will do. For as the President said recently, the District of Columbia suffers from the "not quite" syndrome—"not quite a State, not quite a city, not quite independent, not quite dependent." In managing its resources and performing public functions, the District is not like other cities, which receive assistance from their States. In fact, the District has broad responsibilities for what are, elsewhere in the Nation, separate State, county, and local functions. And while Congress has voted to give the city a lump sum annual payment in recent years, it has kept the payment basically flat while imposing strict limits on the District's budget and taxing powers.

Clearly, the current structure does not work. The Administration proposes to significantly re-order the relationship between the Federal and city governments in order to revitalize the Nation's capital and to improve self-government within the District. Specifically, the Administration proposes a three-part strategy to improve the city's financial, managerial, and economic resources.

First, the Federal Government would directly assume certain public functions in which it has a clear interest:

- *Pensions:* The Federal Government would take over the District's pension plans for law enforcement officers and firefighters, teachers, and judges, thus resuming responsibility for the unfunded pension liability that it transferred to the District in 1979. The District would transfer to the Federal Government (or its designee) $3.3 billion in associated pension assets, leaving the Federal Government to assume the $4.3 billion unfunded liability. The District would establish new plans for its current and future employees.
- *Criminal justice:* The Federal Government would provide full funding for the District's Court System (which would remain self-managed), take over the District's Lorton prison facility and its currently sentenced felons, and assume responsibility for incarcerating District felons in the future who are sentenced in accordance with Federal standards.
- *Medicaid:* The Federal Government would assume the roles normally played by the Federal and State governments under this Federal-State program, paying 70 percent of Medicaid spending in the District (compared to the current 50 percent share).

In exchange, the Federal Government would end the Federal payment to the District, which most recently was $712 million. The Federal Government, however, would agree to this exchange of responsibilities only if the District took specific steps to improve its management and performance. The Administration, the Mayor, the City Council, and the District of Columbia Financial Assistance Authority would enter a Memorandum of Understanding, setting forth the District's obligations to meet specific criteria.

Second, the Federal Government would establish the National Capital Infrastructure Fund (NCIF), and would provide seed money from the Federal Highway Trust Fund to fund it. The NCIF would fund transportation infrastructure projects in the District to benefit residents and commuters alike—including the construction of local roads, bridges, and transit facilities.

Third, the Federal Government would create an economic development corporation (EDC) to provide grants and tax incentives for economic development. The EDC would craft a strategic economic development plan for the District, and recommend how to use various financial incentives that the Federal Government would provide. It would build local economic markets, develop strategies to link District residents to newly-created jobs, and help the District foster regional economic strategies.

And fourth, Federal departments and agencies would give the District more intensive technical assistance in education and training, housing, transportation, health care, and procurement, in order to contribute more to the District's success. For instance, the Internal Revenue Service would assume responsibility to collect the District's individual income and payroll taxes. This fourth step would build on the Administration's activities through the President's inter-agency Task Force on the District of Columbia.

The President's plan for the District of Columbia reflects his overall goals for the Nation. It would increase *opportunity* for District residents, demand *responsibility* from the District government, and build a strong *community* in the Nation's capital that all Americans can look to with pride.