

## “Federal Policies to Help Cities Address Economic Development Challenges”

### Statement to the Speaker’s Saving America’s Cities Working Group And Advisory Committee From The Enterprise Foundation June 27, 2005

Thank you, Representative Turner and members of the Saving America’s Cities (SAC) Working Group for this opportunity to discuss how federal policies can help cities address economic development challenges. We commend Speaker Hastert for establishing the Working Group and the members of the Advisory Committee for their service. We hope that the creation of this group sends a strong signal to the Congress and the administration that meeting challenges—and capitalizing on opportunities—in America’s cities must be a national priority.

Enterprise puts private capital to work in urban and rural communities nationwide to support affordable homes and economic opportunities for low-income Americans. Since 1982 we have invested nearly \$6 billion to create 175,000 affordable homes and help strengthen hundreds of neighborhoods and community-based organizations. We work through a network of 2,500 grassroots groups, as well as financial institutions, philanthropic organizations and government agencies at the national and local level. We have been actively involved in helping develop and implement many of the major federal policies affecting cities over the past two decades.

We base our recommendations on three premises. Each is simple on its face; so simple perhaps that it may be overlooked or underappreciated. **First, recent years have shown that cities can reverse decades of decline, even in their most troubled neighborhoods.** When *Business Week* in 2003 referred to “an inner city renaissance”<sup>i</sup> during the last decade, it was not looking at a press release from an urban interest group, it was responding to the data. Pick an indicator: income, homeownership, education, poverty, crime. Inner cities made more progress on all of them than the nation as a whole did during the 1990s.

Median incomes in inner cities increased 20 percent, to \$35,000, compared to 14 percent overall. Homeownership rates, housing units and share of high school graduates increased more in the inner city than in the nation as a whole. Poverty fell faster. Crime rates plummeted. Businesses large and small returned to neighborhoods they had written off. Inner cities even saw a slight increase in employment growth. All these developments reversed decades-long trends. To be sure, inner city communities in general remain worse off by most measures than the rest of the country. But for the first time in years we can clearly see that progress is possible in these neighborhoods and in cities as a whole.

**Second, policymakers who care about cities need to care about the larger metropolitan regions of which they are part, even as they tailor some solutions to alleviate special burdens cities face.** CEOs for Cities put it bluntly:

“The nation as a whole suffers from failing to take full advantage of the potential of our cities. Just think of the lost productivity, increased traffic, pollution, loss of open space, and overcrowded schools in the suburbs—problems associated with sprawl. Inner ring suburbs suffer serious decline without a vibrant core. Rural areas face pressures from development and loss of open space and farmland. At the same time, cities themselves are asked to bear disproportionately the burdens of our nation’s poverty, and even the costs of the regions’ infrastructure.”<sup>ii</sup>

**Third, Congress can help cities continue their progress and meet emerging challenges without big new spending programs.** We are realistic about the unlikely prospect of a “National Urban Agenda” capturing Congress’ or the White House’s attention. But federal policies are important and necessary. Cities should be a bigger part of our domestic policy. The SAC Working Group can play an important leadership role in strengthening existing policies and developing carefully targeted new initiatives that are fiscally responsible and deliver demonstrable value for taxpayers.

Based on the city successes of the 1990s, following are a few core principles we believe Congress should apply to federal policies to strengthen cities. We also cite a few specific existing policies that epitomize these principles. It is not an exhaustive list, but an illustrative one. These policies have other things in common besides their effectiveness and importance to cities: they do not cost a lot of money and strong bipartisan congressional majorities have created and supported them.

**First, cultivate private-public partnerships.** Even if the country were in a stronger federal fiscal position, we would not recommend that the government go it alone in meeting city challenges. The present circumstances preclude all but relatively modest federal investment. That is all the more reason to tap the energies, expertise and resources of corporate and financial institutions, philanthropic organizations and community- and faith-based groups, which have long been active in strengthening cities. This means a balance of “modest carrots” and “light sticks.” Examples include:

- **The Community Reinvestment Act (CRA)**, which encourages banks and thrifts to do safe and sound business in all the communities they serve, including low-income city neighborhoods. Between 1993 and 1999 CRA-covered institutions and their affiliates made more than \$800 billion in home mortgage, small business and community development loans to low- and moderate-income people and places. The Harvard Joint Center for Housing Studies found that “CRA-regulated lenders originate a higher proportion of loans to lower-income people and communities than they would if CRA did not exist.” The Federal Reserve Board has shown that CRA lending is a profitable and not overly risky activity for most banks. Research by the Independent Community Bankers of America has shown that complying with CRA has very low costs even for small banks.<sup>iii</sup> The SAC

Working Group should ensure that CRA remains vigorous and resist attempts to water it down, such as by relaxing the definition and performance measurements for community development investment and services for “small” banks, as the Office of Thrift Supervision has proposed. A strong CRA is essential for the SAC Working Group’s market rate housing agenda to succeed.

- **Fannie Mae and Freddie Mac affordable housing obligations**, which drive these mortgage market makers to ensure affordable homes are available to people in low-income and underserved urban and rural communities. The House Financial Services Committee has passed a bill (H.R. 1461) that would strengthen the companies’ responsibilities, while also ensuring much stronger financial safety and soundness oversight. Among the bill’s provisions is the creation of a fund to support the development of new affordable homes from an annual contribution of Fannie Mae and Freddie Mac’s earnings. This is an appropriate public requirement in return for the public benefits the GSEs receive, modeled directly on the Federal Home Loan Banks’ Affordable Housing Program. Without costing the taxpayers a cent, the fund would boost housing in cities across the country. We urge the SAC Working Group to help ensure that this provision remains part of the bill as it moves toward consideration by the full House.

**Second, ensure substantial leverage for federal expenditure.** Consistent with engaging the private sector as a partner in strengthening cities is the principle that federal polices should leverage substantial participation from partners, including private, charitable and government entities. Not only does this approach stretch federal funds further, it also can engage market-oriented business discipline and enduring, systemic support at the local level for meeting long-term challenges. Examples include:

- **HOPE VI**, which has changed the face of the worst public housing by turning dysfunctional, detrimental living environments into healthier communities. HOPE VI developments in certain neighborhoods have been associated with lower crime rates and higher incomes, education levels and employment rates than were the case before redevelopment. HOPE VI also has spurred increased private investment in these communities.<sup>iv</sup> HOPE VI epitomizes a high leverage federal partnership: the General Accounting (now Government Accountability) Office found that every dollar of HOPE VI funds leveraged \$2.63 from other sources. Even at its highest funding level in 2000, HOPE VI was a relatively small program in HUD’s small budget and cuts since then have reduced it further. Whether or not the program survives in its current form, the SAC Working Group should look to HOPE VI’s successes—and its setbacks, such as regarding resident protections—in shaping the future of public housing, which we are pleased the group has identified as a priority.

- The Section 4 Capacity Building for Community Development and Affordable Housing program** provides seed capital that community- and faith-based groups use to attract private investment for housing, economic development and other community revitalization activities. It helps local communities use other HUD resources like block grants more effectively. In 2004, each federal Section 4 dollar generated \$29 in community development activities. HUD administers Section 4 primarily through Enterprise and the Local Initiatives Support Corporation, the nation's two largest nonprofit community development intermediaries. In 2004, LISC and Enterprise used \$30 million of Section 4 funds to help grassroots groups generate \$864 million to produce more than 7,000 affordable homes and a wide range of other economic development activities. Recent GAO<sup>v</sup> and Office of Management and Budget (OMB)<sup>vi</sup> evaluations have cited the effectiveness of Section 4. GAO found a program that builds the capacity of numerous groups nationwide; attracts substantial private funding; and is well managed and in need of no additional controls. OMB ranks Section 4 as the most effective HUD program assessed to date. The SAC Working Group should support level funding for Section 4 in the fiscal year 2006 budget of \$30 million (the House HUD Appropriations Subcommittee-approved bill provides \$27 million). More broadly, we would welcome the opportunity to work with the group on applying the successful elements of Section 4 to other community development initiatives.

**Third, think holistically and sustainably.** Cities are interconnected to their surrounding regions and have huge impacts on the natural, as well as built, environment. The SAC Working Group could forge a bold new direction in federal policy by helping cities connect urban economic development strategies with metropolitan approaches to meet growth challenges in smart, sustainable and economically competitive ways. Across the country, governors, mayors and new coalitions of diverse organizations are pioneering new approaches to create jobs, provide affordable homes and strengthen the environment. Solutions showing real results include: reinvesting in abandoned sites; connecting housing and commercial development to transit and other infrastructure; and utilizing healthy, high-performance and energy efficient building practices. The federal government should nurture this innovation and incorporate it into federal programs.

An excellent example is the Brownfield Tax Credit proposed by Representative Turner (H.R. 4480). Enterprise strongly supports this proposal. Enterprise recently has worked with staff of the Brookings Institution Metropolitan Policy Program on ideas for several similar proposals (attached). All these ideas are low- or virtually no cost and we would welcome the opportunity to work with the group to develop any of them further.

**Fourth, demand performance and accountability—and stand up for what works.** Despite the progress cities have made in recent years, the general public, the media and many members of Congress have negative impressions of them. Many are skeptical that government policies can lead to meaningful improvements in cities. Part of the reason is that some federal policies have failed cities, and taxpayers, in the past. Federal policies to help cities should be accountable, transparent and performance-based. CDBG could have

clearer benchmarks for success and Housing Choice Vouchers could be administered more effectively, to take two examples. Many cities and advocates for their progress such as Enterprise are committed to working with Congress and the administration in good faith to improve the performance of federal urban policies, *but not if the context is preordained proposed funding cuts even before discussion begins and new approaches can be tested.* We urge the SAC Working Group to help ensure that program reform and regulatory relief are part of a constructive process in which all parties have meaningful participation.

At the same time, the members of this body, and the leading figures on its Advisory Committee, have come together to advocate for smart policies to strengthen cities. When policies with proven records of success are threatened, we believe this group must take a strong stand on their behalf, as some individual members already have. The administration's disastrous proposal in its fiscal year 2006 budget request to cut CDBG and other community development initiatives by more than 30 percent is one example. Representative Turner was at the forefront of the so-far successful effort to protect CDBG and we are deeply grateful.

Tax reform may be another area where we need a strong voice for cities. As the President's Advisory Panel on Tax Reform prepares its recommendations to the Treasury Department and Congress commences hearings on the important issue of simplifying the Tax Code, initiatives such as the Low Income Housing Tax Credit, New Markets Tax Credit, Historic Rehabilitation Tax Credit and tax-exempt bonds, among other provisions, may be at risk. Each of these provisions is effective and very important for cities; they account for almost all the affordable housing and historic redevelopment throughout cities and metropolitan regions and new economic activity in many low-income areas. We hope the SAC Working Group will be ready to argue for their protection if and when necessary. Representative Johnson has already spoken out in support of housing and other tax credits in the context of tax reform and we are grateful for her leadership.

Enterprise looks forward to working with the SAC Working Group and Advisory Committee to help strengthen cities.

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<sup>i</sup> Bernstein, "An Inner City Renaissance," *Business Week online*, October 27, 2003.

<sup>ii</sup> CEOs for Cities, *Competitive Cities: A New Urban Agenda*, CEOs for Cities, 2001, p. 8.

<sup>iii</sup> A summary of this and other CRA research is found in Barr, "Credit Where it Counts: Maintaining a Strong Community Reinvestment Act," Brookings Institution, May 2005.

<sup>iv</sup> Zielenbach, *The Economic Impact of HOPE VI on Neighborhoods*, Housing Research Foundation, 2002, p. 3.

<sup>v</sup> U.S. General Accounting Office, *Capacity Building: Section 4 Program Has Expanded and Evolved*, GAO-03-975, GAO, September 2003.

<sup>vi</sup> U.S. Office of Management and Budget, *Department of Housing and Urban Development PART Assessments*, OMB, February 2005.