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Kemp (HUD - 1989) [2]

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HOPE

Homeownership, Opportunity, and Prosperity for Everyone

Briefing
June 23, 1989

The White House



Jack Kemp
Secretary

U.S. Department of Housing and Urban Development

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Paper	Re: Recapturing the American Dream (2 pp.)	n.d.	P 5	

Collection:

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Open on Expiration of PRA
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Date Closed:	12/2/2004	OA/ID Number:	29188-008
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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

Freedom of Information Act - [5 U.S.C. 552(b)]

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Recapturing the American Dream

Problem:

The Bush Administration faces the challenge of more than 4 million poor people needing housing assistance at a time when new government-supported units (including vouchers) has dropped precipitously (see chart).

Traditional Answer:

The traditional answer has been to build massive and costly new construction programs, raising disturbing problems of corruption and subsidies to developers. Unless the Bush Administration transcends this debate, costly new bills could become law.

The Bush Administration's Answer:

While our opponents will argue for expanding government, the HOPE agenda incentivizes the private sector to expand affordable housing, removes barriers that raise costs and reduce access to housing, and spurs private sector job opportunities so that poor people won't need government assistance.

- Boosting incomes, creating thousands of new private sector jobs, and greenlining pockets of poverty through Enterprise Zones;
- Incentivizing the tax code with the low income housing tax credit to enhance the private sector's ability to provide low cost housing for the poor with the least interference by government;
- Removing barriers and excessive regulations like rent controls, exclusive zoning, and complicated building codes that can add up to 75 percent to the cost of new housing;
- Building a ladder of opportunity out of poverty and despair with Operation Bootstrap, resident management of public housing, and drug treatment and mental health care for the homeless;
- Enhancing opportunities for home ownership to give people greater pride, more reasons to save and invest, and a greater stake in their neighborhoods. The HOPE program, FHA reform, IRAs for first time homebuyers, and "monetizing" vouchers for home ownership can help put that dream into reality;
- Spurring non-profit housing groups, mobilizing neighborhood self-help efforts and unleashing private sector sources of investment capital for inner cities;
- Reducing interest rates and cutting the capital gains tax rate will also expand affordability and availability of housing.

HOPE

(HomeOwnership, Oppportunity, and Prosperity for Everyone)

HOMEOWNERSHIP

- A \$1 Billion Hope Program
 - Promote low-income homeownership and capacity building
 - Expand non-profit and other neighborhood housing efforts
 - Encourage rehabilitation
- FHA Reform
 - Higher loan limits
 - Adjustable-Rate Mortgages
- IRAs for First-Time Homebuyers

OPPORTUNITY

- Service Vouchers for Homeless
 - Substance Abuse treatment
 - Mental health care
- An "Empowerment" Strategy for Residents of Federal Preservation Projects
- Support Services to Help Senior Citizens Stay in Their Homes
- Incentivize Tax Code Through Low-Income Housing Tax Credit

PROSPERITY

- Enterprise Zones
 - Equity-expensing and capital-gains rollover to attract seed capital for inner-city entrepreneurs
 - Lower tax rates for welfare recipients moving into work force
 - Capital gains elimination to reward small-business risk-taking
- Operation Bootstrap
 - Opportunity for tenants to achieve economic independence
 - Comprehensive strategy of child care, job training, education, and transportation

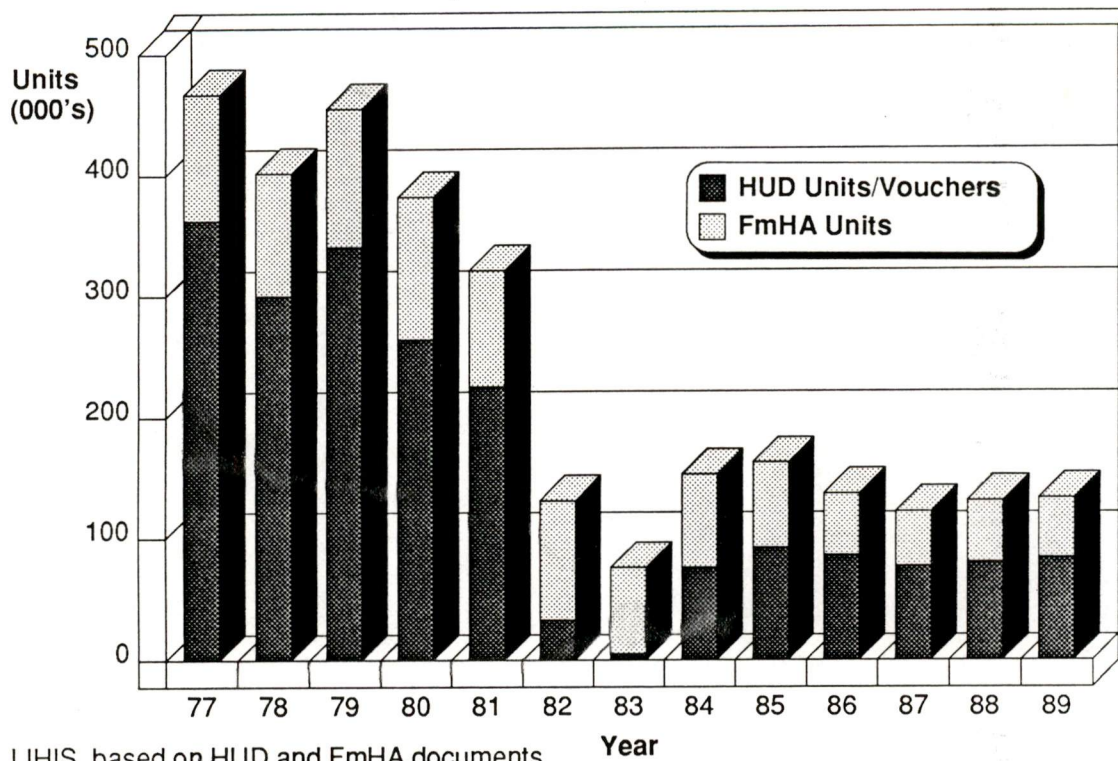
350 co-sponsors

Get Credit For President

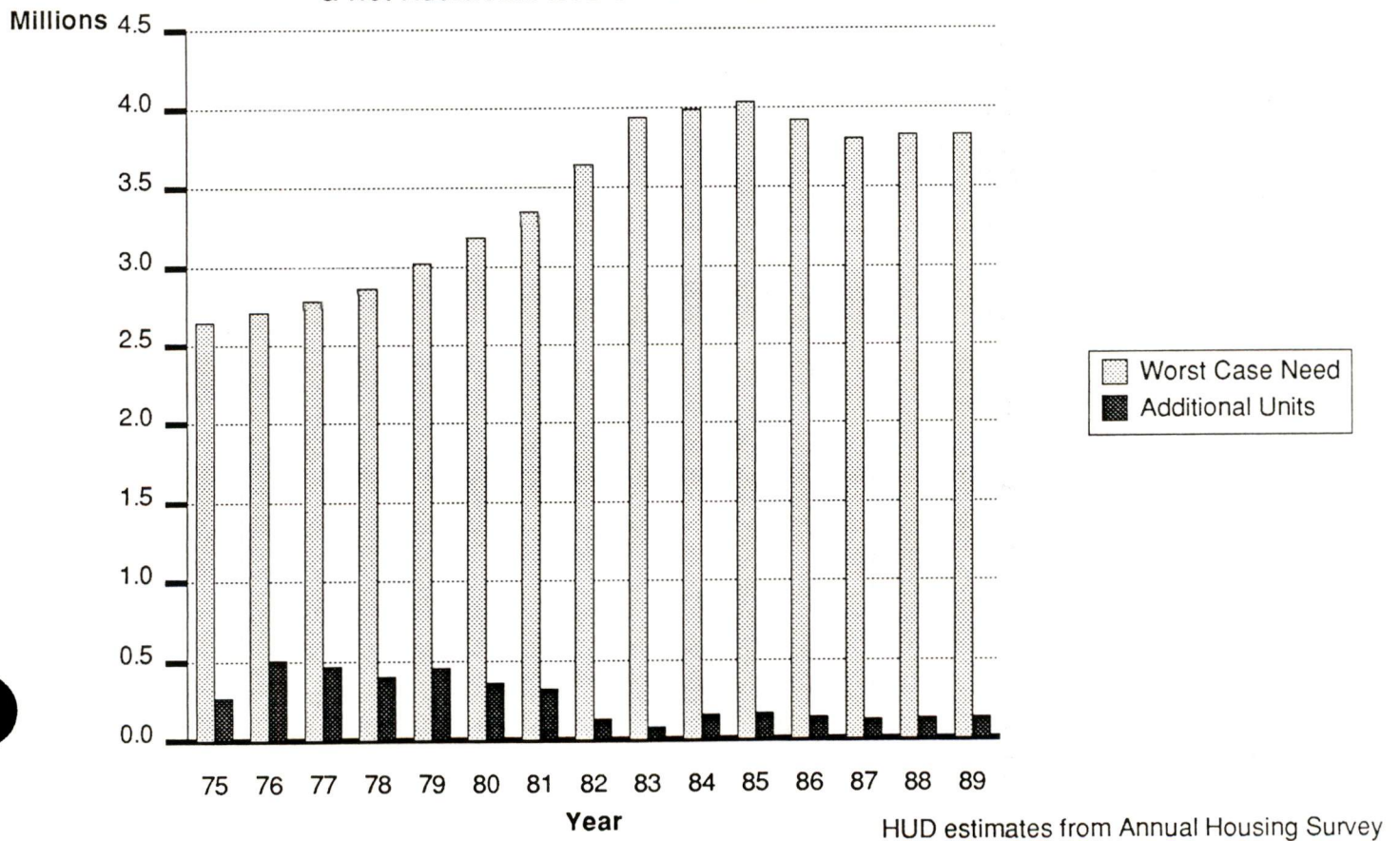
OPT OUT PHENOMENA

HUD and FmHA Low Income Housing

(Net Additional Units, 1977-89)



Worst Case Housing Needs & Net Additional HUD & FmHA Units



**Remarks by President George Bush
at the Swearing-In Ceremony for Jack F. Kemp
as Secretary of Housing and Urban Development**

"Both Jack and I are dedicated to making America, to the fullest extent possible, an opportunity society. And that means an economy that's thriving and creating jobs; cities that are filled with enterprise and offer residents a good life and good living; neighborhoods that are vibrant and safe, with affordable houses going up, old ones being restored.

It means giving people—working people, poor people, all our citizens—control over their own lives. And it means a commitment to civil rights and economic opportunity for every American. The chance for a greater America lies before us and we're going to seize that chance."

Bush Campaign Pledges in Housing and Urban Development
as they relate to HOPE

I. Building Jobs (Enterprise Zones)

"I want to spread economic growth... That is why I am talking about rural enterprise zones... and urban enterprise zones to revitalize cities from Newark to the South Side of Chicago to Watts."

II. Urban Homesteading and tenant management (HOPE program)

"I will work toward policies to enable every American to have the opportunity to own or manage their own home, to have a piece of the American dream. The legislation passed earlier this year--allowing public housing residents to manage or buy their own projects--is a dramatic step in the right direction."

III. First-time homebuyers

FHA top limits:

"George Bush will ask FHA to experiment with regional FHA mortgage limits, reflecting the differences in the housing markets around the country. He will also increase the FHA mortgage limits as the price of homes increase."

Savings plan for first-time homebuyers:

"Under my plan, taxpayers could contribute up to \$1,000 a year to the savings account. By doing so, they will be helping themselves better able to afford a home, pay for college or start a business and they will be helping America--by increasing investment and economic growth."

IV. Housing Vouchers

"Scholars during the 70's found that to provide the same amount of aid building subsidies cost two or three times as much as housing vouchers. What low-income families need is more of their own earned money and a little help to pay for that housing."

V. Homelessness--(Service Supported SRO's)

"We should increase funding for community based mental health clinics, as well as for low-income housing assistance. And we should develop initiatives involving Federal/State/private partnerships to increase the stock of single room occupancy shelters."

VI. Creating Self-Sufficiency (Operation Bootstrap)

"I want a welfare system that strengthens families--not weakens them. We can do it with a new national strategy that stresses grass roots participation, State and local involvement, and innovative ideas for reducing dependency on the Federal Government."

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HOPE

Homeownership, Opportunity, and Prosperity for Everyone

Key Decisions

1. **\$1 billion HOPE program for urban homesteading, resident management, and nonprofit homeownership; require State/local governments to identify and plan removal of major barriers to affordable housing (e.g., rent control complicated building codes, exclusive zoning).**

Rationale:

- President Bush endorsed tenant management and urban homesteading in campaign;
- Generates political credit for innovative housing idea;
- Shifts agenda away from long term subsidies and to homeownership;
- Replaces troubled mod rehab program;
- Strategy and competition—\$1 billion needed for political credibility:

Cranston/D'Amato	\$4 billion per year
Gonzalez	\$8 billion per year
Rep Study Committee	\$4 billion per year
Saiki/Vento	\$4 billion per year

- Non-profits are "wave of the future"—built or rehabbed close to 250,000 new units

Critical Issue:

\$1 billion HOPE program should be approved.

Approve_____

Disapprove_____

2. Enterprise Zones

Rationale:

- Presidential campaign pledge;
- Private sector initiatives for minority small business job creation;
- A centerpiece for the Bush Administration's Opportunity Society.

Critical Issues:

a. Administration initiative can't be weaker than H.R. 6:

Recommended incentives:	Approve/Disapprove
(1) Capital Gains Tax Elimination	_____/_____
(2) Equity Expensing for first \$100K in Enterprise Zone small businesses	_____/_____
(3) Labor Incentives	_____/_____
(4) Capital Gains Rollover	_____/_____

b. Static revenue estimates that don't account for increases in jobs and growth should be rejected. A GNP increase of at least .1% as a result of Enterprise Zones is needed if incentives are going to fit into the \$1 billion 4-year revenue target.

Approve_____

Disapprove_____

3. Preservation Strategy for vulnerable housing stock

Rationale:

- Major housing issue in Congress;
- Owners of 350,000 low income housing units are eligible to prepay mortgages and opt out of program;
- About 90,000 units likely to be lost in FY 1990-93;
- Budget baseline does assume these people are entitled to vouchers.

Critical Issue:

HUD should "monetize" 10 year rental vouchers to expand choice and empower residents and non-profits to buy properties from developers. Otherwise inducements to owners to maintain stock, or vouchers will be provided.

Approve_____

Disapprove_____

4. Service vouchers for mentally-ill, drug abuser homeless

Rationale:

- Homelessness is a Presidential priority;
- Supported SROs was a campaign pledge;
- New initiative will help keep Republicans a step ahead on homeless issues;
- Up to 2/3rds of homeless on streets may be mentally-ill or substance abusers;
- Requires vigorous outreach to hard core, visible "street" population as a condition for program.

Critical Issue:

Spend \$115 million more for homeless mental health/substance abusers.

Approve_____

Disapprove_____

5. Operation Bootstrap

Rationale:

- 10,000 incremental vouchers to be combined with education, job training, day care to move poor people to self-sufficiency;
- Emphasizes key Republican principles: vouchers, economic self-sufficiency, and federalism;
- Based on demonstrated success of Project Self-Sufficiency;
- Reduces corruption; doesn't subsidize developers, but rather directs assistance to tenants.

Critical Issue:

Spend \$280 million more for housing vouchers conditioned on local anti-poverty commitments.

Approve_____

Disapprove_____

6. FHA Reform

Rationale:

- Endorsed in Bush campaign, helps first time homebuyers;
- Bolsters solvency of FHA fund;
- Raises FHA receipts by \$515 million over next 4 years;
- Raises the FHA statutory limit from \$101,250 by 16%, following inflation measured by constant quality house price index. Adjusts for inflation in average house prices in future;
- Largely concedes to OMB position.

Critical Issue:

Raise limit to 95% of area median sales price or \$118,125.

Approve_____

Disapprove_____

7. IRA rollovers for first time homebuyer

Rationale:

- First homes made eligible investment within IRAs and 401(k)s;
- Endorsed in campaign;
- Encourages homeownership among young families;
- No cost;
- No threat to retirement security because loans must be repaid to IRA before retirement.

Critical Issue:

A primary residence should be an eligible activity for IRA funds.

Approve_____

Disapprove_____

8. Frail Elderly in assisted housing

Rationale:

- Supportive services are a key issue for assisted housing;
- Keeps elderly in own homes and helps prevent premature institutionalization;
- Reduces health care and nursing home pressures on medicaid;
- Elderly are fast-growing segment of population.

Critical issue:

Commit one year funding of \$114 million for elderly housing with service vouchers.

Approve_____

Disapprove_____

9. Low income housing tax credit

Rationale:

- Congress will pass anyway;
- Should give President some credit;
- Federalism initiative giving states the lead;
- Last remaining resource for new construction of low-income housing;
- Minimal government interference and control.

Critical Issue:

Administration should endorse the LIHTC, costing \$55 million in outlay equivalent.

Approve_____

Disapprove_____

Department of Housing and Urban Development
(\$ in Millions)

	Budget Authority					Outlays				
	1990	1991	1992	1993	1990-93	1990	1991	1992	1993	1990-93
Subsidized Housing										
Kemp Proposal: Above Bush Budget										
Requires Appropriation										
HOPE	1,000	1,000	1,000	1,000	4,000	100	400	700	1,000	2,200
Prepayment	0	0	0	0	0	0	0	0	0	0
Operation Bootstrap	280	280	280	280	1,120	140	280	280	280	980
Frail Elderly	114	0	0	0	114	57	57	0	0	114
Service Vouchers	115	115	115	115	460	50	115	115	115	395
Subtotal	1,509	1,395	1,395	1,395	5,694	347	852	1,095	1,395	3,689
Other										
Tax Expenditures: LIHTC*	—	—	—	—	—	55	260	565	840	1,720
FHA Offset	—	—	—	—	—	-116	-135	-134	-130	-515
Mod Rehab Elimination	-400	-400	-400	-400	-1,600	-100	-300	-400	-400	-1,200
Net Total	1,109	995	995	995	4,094	186	677	1,126	1,705	3,694

* OMB estimates, not official Treasury estimates

June 1989

HOPE Grant Program

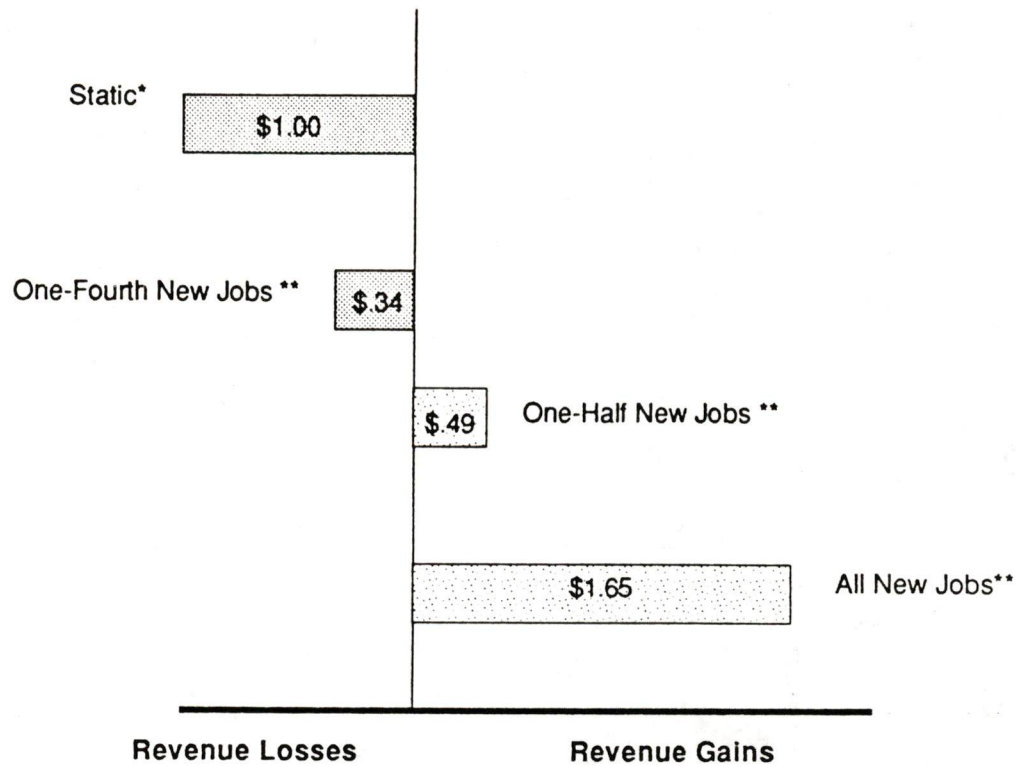
A new \$1 billion competitive matching grants to States, localities, and nonprofits, to be used to promote low-income homeownership in three types of housing:

1. Public Housing, to promote tenant ownership and resident management: funding for rehab costs, technical assistance, including seed money for tenant management organizations, and replacement vouchers (incremental).
2. Homeownership for Tenants in Distressed Projects, for converting Secretary-held and other distressed low-income multifamily projects to tenant homeownership and resident management. Funding to cover rehab costs and technical assistance. No replacement vouchers needed.
3. Homeownership for Other Very-Low-Income Families, including single-family as well as multifamily ownership; funds can be used for rehab, interest buydowns, downpayment subsidies, other ideas. Homeownership for prepaying projects could be eligible use (see below). Banks can fulfil CRA obligations through participation.

Matching by States, localities, and nonprofits with \$1 for every \$2 of Federal money.

HOPE does not replace rental rehab grant program, which continues to provide \$150 million per year in funds for "mom and pop" small-scale rental properties. It does replace Mob Rehab.

Tax Costs of Enterprise Zones: Static vs Dynamic Assumptions



* Assumes no "new jobs," no feedback effects

** Assumes some of the employment growth in Enterprise Zones are "new jobs;" multiplier effects; and half of newly hired come off unemployment compensation roles and half off welfare roles

The feedback estimates are based on estimates of revenue losses which Treasury and HUD constructed in the early 1980s. The estimates assume 75 zones with total initial employment of 427,500.

New Jobs	Enterprise Zone	All of US	% increase over US emp
Static	0	0	0
One-fourth	29,500	83,000	.07%
One-half	59,000	166,000	.14%
All	118,000	332,000	.28%

This model assumes this growth occurs in 2 years. OMB predicts that US employment will grow by 3.1% in two years. Our results would change this prediction to 3.2%, 3.2%, or 3.4% depending on the case.

**Comparison of Tax Incentives Included in Selective
Enterprise Zone Proposals, 1980 to 1989**

Incentives	Bush (recommended)	Rangel (HR 6)	Reagan- Administration	Kemp/Garcia
Capital Gains Elimination (New Investment)	✓	None	✓	(by 50%) ✓
Capital Gains Tax Deferral (Deferral of taxes on gains if rolled into zone property)	✓	✓	None	None
Stock Expensing (\$100k in enterprise zones small businesses)	✓	✓	None	None
Employee General Wage Incentive (5% of first \$10,500)	✓	✓	✓	✓ 50% credit (against FICA)
Employee New Hire Credit (10% of \$17,500)	✓	✓	✓	✓ 50% credit (against FICA)
Disadvantaged Worker (50% of wages)	✓	✓	✓	None
Machinery/Equipment Credit	(NCRS) ✓	None	✓ (Increase credit by 50%)	✓ (Increase credit, 3 yr. tax lives for up to \$500,000)
Structures	(NCRS) ✓	✓ (Same as Reagan)	(10% Increase) ✓	None
R&D	None	✓	None	None
Corp. Rate Reductions	None	None	None	(by 25%) ✓

HUD-Backed Options for Enterprise Zone Legislation

Administrative Issues

Selecting the zones

Prospective zones should have to meet minimum requirements as to degree of poverty and size of population. Then, zones should have to compete for approval by the Secretary of HUD by showing pledges of support from state and local governments in the form of tax relief, improved services, deregulation, etc. A competitive selection process encourages states and localities to offer a range of pro-growth incentives to complement the federal initiative.

Major Federal Tax Incentives

Capital gains.

Enterprise zones should offer two separate treatments of capital gains.

First, capital gains tax elimination on new investment in a zone. This would include tax free gains upon first sale of zone property after a zone has expired. This option attracts entrepreneurial risk-takers who hope to establish a going concern which can later be taken public for a big gain, or sold in some other manner, with the profit taken for retirement or other investment opportunities unencumbered by being restricted to the zone.

Secondly, investors could choose the deferral of capital gains (tax) if proceeds are used to buy zone property. This option should help attract financing to the zone. It is attractive to outside money.

Equity expensing of stock in zone businesses.

Enterprise zones should permit up to \$100,000 to be deducted from taxable income per return per year for the purchase of stock in enterprise zone small businesses. This incentive is a reduction in the cost of capital used in an enterprise zone and it could attract capital from outside the zone to fund new businesses.

Tax credits for labor.

-- An employee personal income tax credit for wages earned in the zone of 5%, up to a cap of 1.5 times the FUTA wage base or the first \$10,500 of zone wages.

-- An employer credit for hiring disadvantaged workers equal to 50% of the worker's wage for three years, phasing out over the following four years. This credit has no cap, which gives the employer a major incentive to train disadvantaged workers for higher paying jobs.

-- An employer credit for 10% of the total enterprise zone payroll (for existing businesses, this is a 10% of the increase in payroll after the zone is designated).

Neutral Cost Recovery System.

The goal is to approximate immediate expensing (zero effective tax rates) on all assets, or at least an equiproportional reduction in the cost of capital and equal (non-zero) effective tax rates across assets in the zone. Fractional credits may be needed and possibly fairly large ones for structures and lower ones for short-lived assets.

Free trade zone status.

Provide for special consideration for free trade zone status.

Testimony of Secretary Jack Kemp
on Enterprise Zones Before The
Senate Committee on Small Business

June 21, 1989

ENTERPRISE ZONES -- RESTORING JOBS AND ENTREPRENEURSHIP TO
AMERICA'S INNER CITIES

Mr. Chairman, Senator Boschwitz, Senator Lieberman and members of the Committee, I thank you for your interest in obtaining the views and recommendations of the Administration on enterprise zones. I am heartened by the broad coalition of Republicans and Democrats, liberals and conservatives supporting enterprise zones, and in particular the initiative taken by the bill sponsors in the Senate and House to garner increased support. My friend, Charlie Rangel, working with Democrats and Republicans in the House, has gained well over 200 cosponsors to HR 6, the Enterprise Zone Improvements Act of 1989. In the last six weeks alone, he's added 120 new cosponsors.

It's evident that the momentum is growing in support of this concept which, as the legislation that Congressman Bob Garcia and I introduced in 1980 proposed, will turn areas that were once "redlined" for despair and into areas that are "greenlined" for success.

Mr. Chairman, there should be no waiting on enacting the enterprise zone concept into law and I appreciate that Congress -- particularly the Senate Finance and House Ways and Means

Committees -- wishes to accept the Administration's recommendations before moving forward.

President Bush has said regarding his objectives for economic revitalization that he is "dedicated to making America an opportunity society -- and that means an economy that's thriving and creating jobs; cities that are filled with enterprise and offer residents a good life and a good living, neighborhoods that are vibrant and safe with affordable houses going up, old ones being restored."

President Bush's commitment translates into a plan for economic development and jobs through enterprise zones to encourage entrepreneurship and job creation in distressed inner cities and rural areas. The President has recommended enterprise zones in his budget and his proposal will be introduced very soon. I commend Senator Boschwitz for his bill S. 58, which together with Senator Danforth's bill, S. 35, for rural zones, so closely resemble our model of dramatic incentives to encourage investment in the most economically desperate areas of our urban and rural communities. On behalf of the Administration, I intend to work closely with Congress on a package of incentives to revitalize these areas and succeed in replacing despair with hope, poverty with opportunity.

Time has since passed for us to be testing the enterprise zones model. Mr. Chairman, twice this Chamber has passed

enterprise zones legislation. It's time for the Congress to unite and restate its commitment to expanding jobs and economic opportunity by turning the enterprise zone concept into law.

The states are already ahead of us. Since 1982, 37 states and D.C. have enterprise zone programs. These state zones are demonstrating substantial success, despite the fact that they have no benefits from much more powerful federal incentives. Surveys show that state zones have created approximately 184,600 new jobs, helped retain nearly 169,100 existing jobs, and promoted more than \$18.1 billion in new capital investment. According to Business Facilities magazine, between 1986 and 1989 state enterprise zones were responsible for 127 percent increase in new jobs, 226 percent increase in jobs retrieved, and 174 percent in new capital investment.

The purpose behind enterprise zones is very simple -- stop doing things that destroy our cities, snuff out jobs, and smother the entrepreneurial spirit. Instead, foster an investment climate that will create new jobs and help produce hundreds and hopefully thousands of new entrepreneurs and small business people.

With the proper set of economic policies, President Bush and I are confident that enterprise zones can help "percolate" a whole new generation of small business entrepreneurs and community leaders, set in motion a process of self-improvement and job-generation, but most of all restore hope for progress in America's future.

Mr. Chairman, I think it is disappointing that there are less than 800,000 minority-owned businesses out of more than 12 million total. Minorities own less than 7 percent of the total business in America. I believe our nation should target a goal of doubling or tripling the number of new minority-owned businesses by the end of this century.

Jobs, homeownership and good education for our children are at the center of the American dream, and we must once again recapture that dream for those who are fighting to pull themselves out of poverty.

So, while we must continue to provide a social safety net under which no one will fall, we must also strive to provide an opportunity ladder upon which all may climb to jobs, upward mobility and good education.

Small Business and Entrepreneurism

People say we don't have any entrepreneurs and small business people in our depressed inner cities. Well, we do have a thriving underground economy in many inner cities and it's not all illegal or criminal activity. In most cities, there are hundreds of street vendors, informal day care providers, painters and plumbers, just to name a few, who largely escape the tax collector.

Waves of new, largely poor and unskilled immigrants tell us that inner cities can be revitalized and that those in poverty can

become producers, entrepreneurs, and taxpayers if their services are properly rewarded rather than blocked by government red tape, regulation and high taxation.

The small business sector will be one of our most powerful armies in this war on poverty. MIT's David Birch found that for the country as a whole, firms with 20 or fewer employees generated 66 percent of all net new private sector jobs. In the Northeast small firms accounted for virtually all the net new jobs created. Most of these new jobs -- some 80 percent -- were created by young firms, less than 4 years old.

But small business is also very risky, fragile and unstable; the type of firms that government is least likely to reach or provide assistance to. More than 65 percent of small firms were found to fail within the first 4 years. But those firms which did survive were 4 times more likely to expand than contract.

Remarkably, the deathrate of jobs is fairly constant throughout the nation. Cities that suffered a net loss of jobs did so because of a low birthrate of new jobs, not because of the deathrate of jobs was very high.

Policymakers, therefore, shouldn't try to prevent the deaths of business. If we are really interested in restoring the health of our economy, we must try to quicken the pace of new business formation and entrepreneurial start ups.

The clear conclusion from Birch's finding is that the most effective strategies for job creation will not center around

luring big businesses and corporations into depressed areas, not in attempting to prevent corporations from failing or leaving an area. The best strategies for job creation must capitalize on the tremendous job-creating powers of small businesses.

Yet, these small business people tell us that what they most want from government is less regulation, less taxation, and lower interest rates. Enterprise zones offer the sort of innovative tax reductions and regulatory relief efforts that can remove these barriers to small business and job-creation.

Capital Gains

The Administration believes the tax code can provide efficient means to accomplish economic and social objectives. As President Bush has requested as part of his economic proposals to Congress, a reduction in the capital gains rate from 33 percent to 15 percent can do what its done before: reward enterprising activities, and free up billions of dollars in risk capital for new small business. Between 1979 and 1985 when the top capital gains rate was reduced from 49 percent to 20 percent, the number of small company startups more than doubled, rising to 640,000 from 270,000, creating an additional 15 million jobs.

One of the most dramatic changes we can make to encourage business formation in enterprise zones is to eliminate the capital gains tax on investments in enterprise zones. By allowing entrepreneurs to receive 100 percent of the benefits from selling

their company, the capital gains tax cut will encourage small business entrepreneurs to take risks, start companies and expand.

Hong Kong is one of the most vibrant and growing economies in the world. Hong Kong has the second highest per capita income in Asia, and real wages have soared 20 percent in recent years. Hong Kong doesn't tax capital gains and it has very low rates of tax on income and corporations. These low tax rates don't necessarily mean a diminished tax revenue yield or reduced government services. Hong Kong is planning to reduce its income tax rate even further. They have so much new government revenue that they can't spend it all.

We should also remember that a capital gains tax cut is one of the few tax incentives that pays off to the entrepreneur only if he or she increases the value of the firm. If a business person fails, he or she won't benefit from the tax cut. But if the business grows and creates new jobs, the entrepreneur will be rewarded. I believe that this is exactly the type of message we want to be sending our inner cities and depressed rural areas.

Equity Expensing

Entrepreneurs will also be helped by a second incentive -- expensing of equity investment in an enterprise zone and deferral of taxes on capital gains rolled over into an enterprise zone. Because start-up businesses typically have little or no tax liability in their first years, there is a limit to what direct

tax reductions can do to help these firms. That's why the Administration will propose giving investors an upfront deduction for their first \$100,000 equity investment in zone businesses and a deferral of taxes on capital gains rollovers. Expensing and capital gains rollovers are two of the most innovative and exciting features of the enterprise zone bills in the Senate and House.

In return for an up-front tax deduction, investors would provide inner city entrepreneurs the kind of seed capital they need to start up retail stores, a printing shop, a delivery company, laundries, or workshops, just to name a few examples.

It's been my view that equity expensing and the rollover provision will help remove the bias toward double taxation of savings and business income. Any possible revenue costs of equity expensing should be recouped eventually since the entire amount of the investment plus any net gain will be taxed as ordinary income at the time the enterprise zone stock is sold. Plus, taxes would only be deferred on capital gains rollover; capital gains taxes would be paid when those gains are pulled out of the zone.

Job Credits

The Administration is also supporting new employment-based tax incentives to help draw welfare recipients off the welfare rolls and into the productive workforce. Welfare recipients and other low-income people on government support often face effective

tax rates that are steeper than for our highest income earners. As poor folks enter the workforce, not only do they pay income taxes on the earnings, but they also face higher effective marginal taxes from losing their AFDC, welfare, Medicaid coverage and other government payments cut as well as new costs such as child care and other employment related expenses.

The Administration supports enterprise zone legislation that gives employers greater incentives to train welfare recipients and offer them job opportunities to help break the poverty trap.

Competitive Selection

Federal tax relief is only one component of a comprehensive urban strategy. But Federal tax incentives can act as a catalyst for other state, local and private sector efforts to restore urban vitality and economic buoyancy. The Administration will propose a competitive process for enterprise zone selection. In this process, those states and localities which offered the strongest package of incentives and initiatives would receive preferential selection for zone eligibility.

For example, some preference for Federal enterprise zone designation could be given to states and localities that offer relief for land use regulations, zoning laws, building codes and rent control. Similarly, states and localities could toughen community drug enforcement, begin new anti-crime efforts or improve municipal services and neighborhood infrastructure.

Other Federal and Local Incentives

The Federal government can also do more to leverage federal tax incentives. I have directed my staff to put together a strategy for using the full resources of the Department of Housing and Urban Development to strengthen enterprise zones. We will also be seeking cooperation and contributions from the other Cabinet Secretaries. The Jobs Training Partnership Act, for example, can help train people in enterprise zones for the new jobs that will be created by our tax incentives and business-formation efforts.

In this way, enterprise zones may be the key to making traditional spending programs much more effective.

But government efforts are not the only answer. Right now in our inner cities there are a rich variety of self-help groups, religious institutions and neighborhood and service organizations that are the strong social fabric of our communities. This complex web of social interaction and mutual help efforts are the strength and pride of our neighborhoods. Too often government has destroyed this invisible network of relations or simply ignored it.

We need to empower these groups and unleash their energy and efforts, as we have done with dozens of tenant management groups across the nation who are taking over their projects and achieving their dream of homeownership. We have barely begun to scratch the surface in promoting many other self-help efforts. In this

crucial component of our urban revitalization strategy let us build upon the strengths of the community and rely on those closest to the problems themselves -- the grassroots leaders.

Cost of Enterprise Zones

Some of our critics say that enterprise zones are untested and untried. They say that reducing taxes in our inner cities would cost billions of dollars.

I say that enterprise zones already have been tested, they've already been proven and they already are working. The entire scope of the last 8 years is proof that reducing taxes on labor and capital to increase incentives results in unprecedented prosperity, enormous job creation and a flood of new investment. Since the 1981 tax rate reductions 17 million new jobs have been created, taxes paid by upper income groups have soared far beyond what they would have been under higher tax rates, and in the last year alone government revenues have risen by more than \$80 billion.

More tax revenue today is flowing into the Treasury with lower tax rates and a growing economy than with higher tax rates and a stagnant and lifeless economy.

Yet, our inner cities and other pockets of poverty around our nation are still suffering from incentive-numbing effective tax rates, not just because of high initial tax rates on those trying to escape poverty but from the high effective tax rates resulting

from suffocating regulation, exclusive zoning, crime, drug abuse and poor education.

How can we lose revenues from tax cuts on businesses that don't yet exist, from investment that hasn't occurred and from jobs that are missing from inner city neighborhoods? I'll tell you how. Our critics assume that all activities that occurs in an enterprise zone simply involves shifting of activity which otherwise would have occurred outside the zone.

Let me be more specific. Our critics coming up with revenue loss figures assume that lower taxes on labor and capital won't produce one net new job, one net new dollar of additional investment or one new business.

Mr. Chairman, why is it so difficult for our critics to understand that incentives work for poor people as well as they work for the rich? Why don't they understand that lower taxes work as well -- if not better -- to stimulate small business development as for big business expansion? Why is it hard to understand that minorities and poor people have the same hope and dreams to become entrepreneurs and producers as other people?

It has been estimated that if only one-quarter of the jobs created in an enterprise zone were new jobs, and not just shifted economic activity, that the cost of enterprise zones would be cut in half. And if one-half of the economic activity in a zone were really new, enterprise zones would actually raise government revenues. I believe that with the government running a budget

deficit that we can't afford to waste this vital, untapped contribution to our nation's economy and budget from putting poor folks and inner city minorities back to work.

Let me assure you that I do not consider enterprise zones to be a replacement for other Federal programs, although I think that over time, as enterprise zones succeed, we may well see them more efficiently accomplishing the goals of many Federal programs. I view enterprise zones as one major weapon in the arsenal of our war on poverty. It is a way to bring together the resources of all levels of government and the private sector in a productive partnership.

Mr. Chairman, I believe we are forging a common and bipartisan agenda for waging a new and successful war on poverty. Our principles are founded on our faith in our democratic capitalist system, but our inspiration comes from Dr. Martin Luther King, who said he had faith in America and an audacious faith in the future of mankind. We too believe in the unlimited potential of free men and women to better their lives and the future of their country.

Through enterprise zones we can begin this new war on poverty, and one that is successful, where jobs, homes and hope replace despair and unemployment.

Thank you for this opportunity to present the Administration's view of enterprise zones. I am happy to respond to your questions.

Prepayment/Homeownership

Purpose: Maximum conversion to homeownership.

Method: Grant to non-profit sponsor of homeownership conversion, averaging \$42,000 per unit (present value of 10 years of vouchers or certificates for actual units and tenants). Project must convert to homeownership within specified time. Funds above sales price can be used for rehab, project reserves, relocation or rent subsidies for non-purchasing tenants.

If tenants choose renting, HUD raises FHA controlled rents to market value of project, up to FMR. Very-low income tenants get project-based LMSA. Lower-income get portable vouchers. Others pay market rent.

Budget Authority: \$997 million in 1990 (\$170 million already in 1990 budget).

Outlays:

Year 1 -- \$977 million
Year 2 -- \$5 million
Year 3 -- \$5 million
Year 4 -- \$5 million
Year 5 -- \$5 million

Expected Outcome:

23,000 units homeownership
5,000 units low-income rental
3,000 units prepay

Design:

1. Owner must provide one or two years notice of intent to prepay to give tenants time to act.
2. HUD-approved appraisal establishes market value of project.
3. Tenants have first right of refusal to match other purchase offer. (Does not apply if owner converts to market without sale.)
4. Matching funds not required, but homeownership sponsors can seek funds above Federal maximum from states, local governments, foundations.
5. If no homeownership proposal after one or two years, HUD offers owner inducements to retain project as low-income rental.

6. Inducements include incentive to manage and maintain project: tenants between 50 and 80 percent of median income get portable vouchers or certificates. Tenants below 50 percent of median are guaranteed occupancy (and rental income to owner) through project-based LMSA.
7. Owners of projects making bona fide attempt to prepay (appraisal has established market value greater than current use) can receive special tax incentives:
 - a. If maintains project as low-income rental, owner can cash in passive losses for which he/she has not had passive income to shelter since 1986.
 - b. If maintains project as low-income rental, owner is not taxed on replacement reserves until they are accessed.
 - c. If sells project for low-income homeownership or for continuation as low-income rental, owner pays capital gains tax only cash actually received (eg., if sale is for the mortgage balance only, the amount by which this exceeds the depreciated basis is not taxed).
8. Owner's right to dispose of property is not abridged.
9. For projects that prepay and convert to market, tenants receive relocation assistance as well as vouchers or certificates.

HUD Homeless Initiative for the Hard-Core Homeless

Background

Major studies have shown that between 50 and 70 percent of the homeless are seriously disabled, primarily from mental illness, alcohol or drug abuse or both. In a recent Urban Institute study, funded by USDA's Food and Nutrition Service, it was found that about 50 percent of the homeless surveyed had sufficiently high psychological distress to indicate the need for immediate treatment.

Yet while this subgroup may have the most severe needs among the homeless, they are the hardest to serve and the least likely to be served. Community mental health programs have typically done a poor job because there are disincentives built into the system against serving the hard-core homeless. A problem exists for drug abusers and alcoholics because of the dearth of detoxification facilities and the preference for serving those that are easiest to cure. The situation is even worse for those homeless with "dual diagnosis" (both mental illness and drug or alcohol abuse) problems. These people are told they have to cure one problem before the other one can be treated. There are very few facilities willing to treat these people. For example, in the entire Los Angeles metropolitan area, there is only one facility that serves the homeless with dual diagnostic problems. It has 32 beds and an incredible waiting list.

Current programs force communities to search for funding sources for housing and services, creating another disincentive to serving these people. Even with some of the McKinney Act programs giving priority to this subgroup, the number of projects serving them is still quite small. Several of the McKinney Act programs only serve one sector of this subpopulation--the chronically mentally ill--but not the other--drug or alcohol abusers. In addition, linkages across the McKinney Act programs of various agencies are difficult to achieve.

It is vital that the Federal government exert moral leadership in this area. It is untenable for American to accept, and even close its eyes, to these people. Homelessness cannot be eliminated unless the Federal government, in partnership with States and local governments and community based non-profits come to grips with the reality of what is necessary to help these people.

Proposal

The Administration would make available \$100 million in housing/services vouchers to serve the hardcore homeless, those who are chronically homeless and who live on the streets. These vouchers could be used for housing, mental health treatment, detoxification, other medical care, or any combination of these activities. The full range of needs for a target population could be funded to eliminate the problem of trying to mesh various funding sources.

It is envisioned that these vouchers would be used in small group homes settings which would provide a sheltered environment and full-time supervised care in a non-institutionalized setting. These vouchers would be portable, so that people who made the transition back to normal, unsheltered housing should could take part of their voucher (figured at the cost for housing, not services) and move to regular housing.

These vouchers would be awarded on a competitive basis to jurisdictions eligible for the CDBG entitlement program--metropolitan cities, urban counties, and States. Applicants would have to ensure HUD that they would serve the hardcore homeless, those on the streets. They would also have to ensure that, either solely with this funding, or in combination with other funding, they had addressed the full range of needs of the people they propose to serve. Heavy emphasis in selection would be placed on the quality of the supportive services package. For this reason, HHS would be involved in project selection.

Because projects could propose to fund any combination of housing and services, actual estimates of the number of people who could be served are difficult to make. However, based on a housing voucher cost of \$ 200 per month per person for five years (the "0" bedroom FMR) and a cost of services of \$500 a month per person for five years, about 2,400 people could be served by this initiative. Cost estimates for the services component are probably very low. Services cost under the Robert Wood Johnson Housing for the Chronically Mentally Ill range from \$5,000 for minimal case management, day programs and a minimal level of medication, patient monitoring, and physical health care to \$30,000 for mental health care and frequent hospitalization. Costs for adding other service components, such as transportation and job training, would increase these estimates.

As can be seen, the cost of serving the hard-core homeless can be quite high. For this reason, applicants will be encouraged to apply their own existing resources to the program. However, in order not to place additional barriers in applicant's way to serve these people, good projects would be funded regardless of the existence of additional local funds.

OPERATION BOOTSTRAP

Summary: HUD is requesting \$25 million to be used to assemble supportive services for training and employment for welfare recipients eligible for housing assistance and to provide gap funding of appropriate services in public housing or assisted projects; 10,000 incremental vouchers to be combined with services to encourage and facilitate participation in such education and training programs; and authority to delay rent increases for participants in these programs.

Purpose: To enable and encourage welfare recipients eligible for housing assistance to utilize the new opportunities for education, training, and employment required by the Family Support Act of 1988. The project will provide motivated families and teenagers living in public or assisted housing with better access to educational, training, and employment opportunities and better support in achieving economic independence by--

- * mobilizing and coordinating public and private resources to expand and improve the delivery of training and support services;

- * providing transitional funding for essential training and support services that can not otherwise be funded;

- * providing vouchers as incentives to participation in programs of supportive services and to help participants make successful transitions to economic independence; and

- * delaying rent increases or otherwise improving work incentives.

Justification:

The Family Support Act requires states to establish JOBS programs (Job Opportunities and Basic Skills) in every political subdivision by 1992, and by 1995 20 percent of state welfare populations at risk of long-term dependency must be enrolled in JOBS. The JOBS programs must include: basic education; literacy; job-skills training; job-readiness activities; job development and job placement; and supportive services such as child care and transportation, and they must be coordinated with JTPA and relevant state training, employment and education programs. In addition, the Act authorizes demonstrations of other programs to reduce long term dependency, such as improving community-based family-support services, employing AFDC recipients to provide child care, and counseling high-risk teenagers.

Housing and welfare assistance are closely linked: in 1986, 42 percent of the families in publicly-owned or assisted housing received public assistance income, and more than half received food stamps. Secretary Kemp has repeatedly stated his commitment to greater opportunity for tenants of assisted housing, and HUD demonstrations show that housing assistance and

committed public housing residents provide good leverage for mobilizing communities and welfare recipients to escape from welfare dependency. This project builds upon that concern and experience to establish opportunities whereby jurisdictions can facilitate movement off welfare for families in public and assisted housing, while also strengthening neighborhoods of public and assisted housing.

Description of Operation Bootstrap

Under Operation Bootstrap, state and local governments will compete for funding and rental assistance by applying to HUD central office. With the assistance of HHS staff, HUD will select those projects that will most efficiently and effectively aid motivated families eligible for or in assisted housing obtain education, training, and employment that will help them avoid long term welfare dependence. To the extent that JOBS programs are available, projects should be coordinated with them, but since it is unlikely that JOBS will be active immediately in all jurisdictions, it is the intent of this competition to spur the provision of transitional services that meet JOBS requirements for residents of assisted housing.

Eligible activities:

Financial assistance can be used:

- to mobilize and coordinate qualifying services and to provide case management for eligible participants, so that appropriate plans and goals can be developed and pursued for each participant. 'Qualifying' supportive services may include but not be limited to child care, employment training and counseling, literacy training, computer skills training, and other education. As discussed below, other services may be desirable for disadvantaged teenagers in housing projects.
- to provide gap funding (phased out over 5 years) for pertinent supportive services if long-term funding will be available from other sources (no more than 40% of total financial assistance).

Vouchers will be used:

- as incentives to eligible households not already living in public or assisted housing to participate in education and employment opportunities, including but not limited to JOBS programs developed by states.
- to support successful transition to economic independence as families come to rely on earned income rather than public welfare payments.

Delays in rental increases can be used:

- for welfare recipients participating in Operation Bootstrap as they first become employed to reduce the severe work disincentives facing households in multiple family support programs.

Eligible participants:

In general, the programs designed by applicants should be offered to families in or eligible for assisted housing, on welfare at time of selection, who are most vulnerable to long term welfare dependency, and who demonstrate commitment to a program such as JOBS and will set and work toward goals leading to economic independence. In addition to employment and training services, applicants would be encouraged to provide services specially targeted at the needs of teenagers in public and assisted housing who are at risk of becoming welfare dependent but who have not yet become individually eligible for welfare.

Eligible Applicants:

State and local governments would apply on the behalf of programs to be run by the PHA or another agency appointed by the applicant. Substantive and continuing involvement from other agencies and the private sector would be required in the development and operation of the program.

Selection criteria:

The selection process would be competitive. Factors important in the selection would include the design of the local program; the involvement of the Chief executive officer; the need for and ability to provide services; evidence of plans and capability to coordinate with others, especially local welfare agencies and those administering JOBS and JTPA; the capacity and commitment of the local private sector; and other factors to ensure that funds are used effectively.

Benefits excluded from income:

Currently, the requirement that tenant rental contributions must increase with income to be 30% of income is a disincentive to employment. Because of interactions among programs, disincentives are particularly severe for households receiving AFDC, food stamps, and housing assistance. For example, after four months of employment, the marginal tax rate in 1984 for a household in these three programs was such that it lost 14 cents of services for an incremental dollar of earnings. To instead encourage working, this Project would allow rent increases to be delayed rather than automatically required as participants gain work experience.

Interagency cooperation:

In addition to involving HHS in the selection of applicants, HUD will also work with HHS and Agriculture to determine more acceptable long-term solutions to problems of work incentives and to determine how best to evaluate the success of this project.

Comparison with Project Independence:

Operation Bootstrap provides communities the means and incentives for achieving similar goals of independence, but is not restricted to public housing residents.

- * Building on lessons learned from HUD demonstrations, it emphasizes effective coordination of services, rather than physical renovation.

- * It stresses involving local government agencies and the private sector and coordinating public and private training and employment efforts.

- * It will integrate welfare reform initiatives and existing services with housing assistance rather than duplicating services.

FHA Single-Family Mortgage Limits

Significant concern has been raised about the decline in homeownership rates since 1980. This decline cannot be attributed solely to cost factors because demographic and life style changes are important influences on the homeownership rate. Nevertheless, although general affordability measures have improved (with interest rate movements) between 1982 and 1988, some homebuyers do face affordability problems, and it is clear that the need for larger downpayments has grown. For homeowners with existing equity to help pay for a new residence, this may not pose a serious problem. For the first-time homebuyer, however, the combination of large downpayments and big mortgages can pose a formidable barrier to ownership.

The "large downpayment" problem is further exacerbated by the current weakened condition of the Private Mortgage Insurance (PMI) industry. After a sustained period of poor profitability resulting from overaggressive pricing in the late seventies and early eighties, the industry has been increasing premium charges and reducing underwriting risk by limiting the use of high loan-to-value (LVR) loans (thus, contributing to the current affordability problem).

The FHA mortgage insurance program, with its availability of low-downpayment mortgage financing, already provides an excellent vehicle for promoting improved homeownership affordability for prospective first-time homebuyers. Unfortunately, the current statutory cap on high cost area mortgages (\$101,250) is set too low to permit the effective use of the FHA program in substantial numbers of high-cost housing markets. For example, the FHA mortgage cap serves as an artificial constraint (and substantially reduces the effectiveness of the program) in 64 MSAs accounting for more than 25 percent of the total U.S. population.

This proposal provides a means for fulfilling the President's commitment to increased homeownership affordability using the FHA insurance programs. It increases the current statutory cap on high cost area mortgages for first-time buyers and purchasers moving into the area for job-related reasons.

The proposal sets the mortgage cap at the lower of 95 percent of the area median housing cost or \$118,125 in 1990. The absolute dollar cap will be indexed annually based on changes in the FNMA/FHLMC purchase cap. There will be no change to the current \$67,500 mortgage floor. The higher cap will apply to first-time buyers and purchasers moving into the area for job-related reasons, while other buyers will be subject to the current mortgage cap of \$101,250.

The proposal has the following beneficial effects:

- Provides an immediate increase in the FHA mortgage cap for first-time buyers in 64 of the 315 MSAs. These MSAs contain more than 25 percent of the total U.S. population.

- At least an additional 27 MSAs will benefit from higher caps in 1991. These MSAs are currently at the \$101,250 cap but may not merit an increase in 1990.
- Will increase premium income (as a result of the increased business in the high cost areas), strengthen the financial condition of the Fund and reduce aggregate claims risk by increasing the geographic diversification of the insured portfolio.
- Will provide a recognized and easily understood method for regularly adjusting the high cost area cap.

Expanded FHA Authority for Insured
Single Family Loans

This proposal would authorize FHA to insure alternative mortgages if it found that the alternative mortgage instrument demonstrated potential for providing increased homeownership opportunities, was generally accepted in the market place, and could be insured without undue risk to the mortgage insurance funds. The proposal would parallel the Cranston-D'Amato bill by establishing separate expanded authorities for Adjustable Rate Mortgages and for other alternative mortgage instruments.

Under current law, FHA can insure a so-called 1/5 Adjustable Rate Mortgage (ARM) and several specific types of alternative mortgage instruments including Graduated Payment Mortgages and Shared Appreciation Mortgages. The FHA ARM carries a maximum one percent annual interest rate increase or "cap" and a five percent lifetime cap. The most prevalent conventional ARMs carry either 2/5 or 2/6 caps.

ARMs. The proposal would remove the requirement that the FHA ARM be limited to a one percent annual interest rate adjustment and an overall five percent lifetime interest rate adjustment ceiling. In this manner, market instruments, such as the 2/5 or 2/6 ARM preferred by conventional lenders, would be eligible for insurance. It is anticipated that a 2 percent annual adjustment could make initial contract rates 1/2 to 1 percent lower than an instrument limited to a one percent annual adjustment. However, expanded authority for ARMs increases risk to the fund. A 2/5 or 2/6 ARM can double the rate of payment shock in a rapidly rising interest rate environment. This could lead to higher default rates, particularly in areas with economic turndowns and declining house prices. In fact, delinquency rates on conventional ARMs run about double those of conventional fixed rate mortgages. Therefore, the proposal would include the following requirements:

1. Findings (as above) by the Secretary on the potential and safety of the instrument;
2. Clear disclosure requirements geared to consumer protection;
3. Underwriting standards which address certain aspects of risk of the expanded ARM, to include continued prohibition of negative authorization, continued prohibition of teaser rates (that is, the annual and lifetime interest rate adjustment limitations must be applied to the actual initial payment rate), and different downpayment requirements, if necessary. It is anticipated that the instrument would also contain a convertibility feature.
4. A higher premium, based upon a periodic collection mechanism would be necessary for loans in excess of 92 percent of value, and the estimated premium level would be .7 percent annually for the first fifteen years. This is consistent with the downpayment proposal, though a higher premium might be necessary.

Other Alternative Mortgages. The proposal would also allow the Secretary to insure other alternative mortgages after making findings as to the potential and safety of the instrument. The authority might be applied to such loans as biweekly mortgages or interest only payments (balloon mortgages) or roll-over mortgages. Along with the overall authority to insure alternative single family mortgages would be the authority to terminate, by administrative action, any program where undue risks occurred after program initiation. Like the Cranston-D'Amato bill, an overall volume cap will be applied to this category of insurance; however, the proposed 10 percent cap will be based upon the number of single family mortgages insured in the previous year, a tighter restriction than the Senate proposal. In addition, separate premiums would be authorized for each instrument.

The overall effect of the proposal will be to align FHA more closely with the private market, to ensure that FHA can provide a variety of financing appropriate to market conditions, and to allow FHA to be more responsive in its service to first-time homebuyers. In the right interest rate environment, a 2/5 ARM may be especially appealing to buyers and might well appeal to lenders (who hold mortgages in portfolio) and investors. On the other hand, because of recent losses, the proposal is cognizant of the need to limit risks both to FHA and to consumers. The proposed strictness in underwriting and premium charges address this, but at the same time could partially limit the proposal's effectiveness in assisting first time homebuyers of modest means.

USE OF RETIREMENT ACCOUNTS FOR DOWN PAYMENTS

This proposal is designed to assist young families with modest incomes who are trying to making the transition from renters to homeowners. For these families the need to save sufficient funds to cover a down payment and other closing costs is not an easy task. It is particularly difficult and frustrating in areas experiencing high rates of housing appreciation where the up-front costs of becoming a homeowner may be growing at a faster rate than the ability to save or increase income. In this situation, homeownership may seem to be an elusive goal continuously just beyond the grasp of these families.

Moderate income families are eligible to fully utilize the considerable benefit of tax-deferred treatment of contributions to and earned income from Individual Retirement Accounts (IRAs). Setting up a retirement plan, however, may not be a first priority for young families who are able to accumulate savings. A higher priority is likely to be saving for a down payment which carries no immediate tax benefits. Current law allows a broad range of investment vehicles for IRAs, but not one's own home. This proposal would allow first-time homebuyers to use Individual Retirement Accounts (IRAs) and other self-funded retirement funds to make the transition to homeownership.

First-time homebuyers would be allowed to use existing balances or new contributions to their retirement accounts as down payments for purchasing principal residences. For households with existing IRAs, this change would eliminate the decision as to allocating limited savings between meeting future retirement needs and accumulating a down payment. For other households, this change could be a powerful inducement to generate additional savings since contributions and earned income to a retirement account would confer considerable tax benefits. In either case, the process of making the transition to homeownership would be accelerated.

The amount of retirement funds used for a down payment would be limited to minimize tax losses and control excessive benefits to individuals. An maximum amount might be set at \$5,000 to \$10,000 or five percent or ten percent of a median or average sales price such as the limits used for FHA insurance or Mortgage Revenue Bonds. Even without such a limit, a natural limit would be set by maximum annual contributions to an IRA or other tax-advantaged retirement fund as defined by statute (\$2,000 per employed person for an IRA and about \$7,000 for an employer established 401(k) plan). Similarly, limits on income are probably not necessary because of the cap on annual contributions, the phase out of the deductability of IRA contributions for higher income households (between \$40,000 and \$50,000 for households filing jointly), and any further limits imposed on down payment assistance amounts.

Retirement plans would be repaid through a loan or from the proceeds at time of resale. Loans would be viable because household income generally rises over time. Repayment at resale is also viable since most households will have accumulated equity in the house. By allowing homebuyers to invest in their houses, this change may result in additional resources being put aside for retirement as well as promoting homeownership.

A proposal to use retirement accounts along these lines is contained in the Cranston-D'Amato bill. However, the provisions in the bill may contain some technical problems that should be solved in an Administration version of the proposal.

New Initiative for the Frail Elderly

BACKGROUND

In 1985, 28.6 million people were over 65 years old. In 2010, 39 million people (or 14 percent of the total United States population) will be over 65. Of these 39 million, 19 million will be 75 or older and 6.5 million will be over 85. As people age, their functional limitations increase. For many elderly who need assistance with one or two simple activities of getting through the day, such as eating or dressing, a nursing home may be the only way that they can get any care at all. But most elderly do not need this intensive and expensive level of care. What they need are supportive services that will enable them to continue to live independently.

The more affluent elderly will have adequate income to pay for the services they need, for example through private insurance. Many others, however, will need help meeting both their housing and services needs. For the low-income elderly, Medicaid now pays for nursing home care, but, with some exceptions, does not pay for in-home services. As a society we need to develop models for community-based care for the frail elderly to permit them to avoid unnecessary or premature institutionalization--for reasons relating both to cost and to quality of life.

PROPOSAL

The frail elderly have different types of housing and services needs; some are already living in assisted housing projects for the elderly, or want to, and some prefer to live more independently, for example, by staying in their current private rental units. Different approaches to these different needs must be developed. This proposal would implement three different housing and services programs for the elderly in order to provide programs tailored their needs.

- For the frail elderly who need assistance with both housing and services, but prefer to remain renters where they currently live in order to receive this assistance, a housing and supportive services voucher will be offered. A set-aside of 3,000 augmented incremental vouchers will be awarded to PHAs through a competition. The total cost of this program would be \$89 million over the five year period of the vouchers. The cost of the services component is based on the average cost of providing services under the Congregate Housing Services Program. The services component includes an amount to pay for a services coordinator/case manager to ensure that services are targeted to those who need them and tailored to their needs. In order to be eligible for the program, a PHA will have to secure a match from the State for half of the increment to the cost of the voucher associated with the cost of services. The State could provide these funds from several sources, including its Social Services Block Grant funds, its Title III Administration on Aging Funds,

or from its own revenues. States should be willing to participate either because the program will result in net savings in Medicaid expenditures or because they believe that social policy dictates that this is a good thing to do. Tenant copayment would be required at a rate of 10 percent of the cost of the services. (See Attachment 1 for a detailed breakdown of the cost of this approach.)

- For the frail elderly who need housing and services, but prefer the supportive environment of a senior citizens complex, a modified 202 program will be developed. Two thousand of the 4,000 Section 202 incremental units proposed for FY 1990 will be targeted to projects that substantially serve the frail elderly. Since projects would be expected to restrict about 40 percent of the units in the project to the frail elderly in order to receive a part of these 2,000 units, about a total of 800 new units nationwide would be targeted to the frail elderly. The total cost to the Federal government of this approach would be \$5.2 million to cover the provision of services for a five year period. Projects would be required to be sufficiently large to support the construction of dining rooms and other physical spaces needed for the provision of congregate services. If such projects had to have about 100 units each, this would mean that 20 projects could be funded under this approach in FY 1990. As in the above approach, States would be expected to provide half of the funding for the services component and tenants would be expected to copay at a rate of 10 percent of the total cost of the services. (See Attachment 2 for a detailed breakdown of the cost of this approach.)
- For the frail elderly currently living in assisted housing but needing supportive services, a special competitive fund of \$19.5 million will be awarded to PHAs and current 202 project sponsors for the development of supportive services not currently available to project residents. Funding would cover both supportive services and case management. States would be required to match the funds provided under this program. Tenant copayment (at 10 percent) would also be required. Funding would be provided for a three-year period in order to ensure continuity of service provision and funding. Funding for retrofitting of projects will not be provided because other sources of funds exist for this purpose and because the existence of a discretionary pot of money for rehabilitation will create pressures for unnecessary physical modifications to units. (See Attachment 3 for a detailed breakdown of the cost of this approach.)

COST-EFFICIENCY AND ELIGIBILITY CRITERIA

The design of programs to provide services packages to the elderly which are targeted only to those at risk of institutionalization and tailored to their actual needs is critical to the cost-effectiveness of the programs. An evaluation of the small current program that provides services to the frail elderly in public housing and Section 202 projects, the Congregate Housing Services Program (CHSP), found that the number of people who did not need the services ranged from 7 to 40 percent of those served. The program was also not successful at restricting specific services to only those who needed them. For example, over half of those served had no apparent need for the meals or chore services they received.

With these problems in mind, the CHSP program has been continually tightening its eligibility requirements. When the program started, individual eligibility was based the need for assistance with one Activity of Daily Living (ADL) (such as eating, toileting, or dressing). In 1983, eligibility was changed to needing assistance in two or more ADLs or Instrumental Activity of Daily Living (IADLs) (such as housework, shopping), one of which must be eating or preparation of food. Further tightening occurred in 1987, with eligibility limited to those needing assistance with three or more ADLs or IADLs. Improvements related to better tailoring of services packages still need to be addressed. For this initiative, in order to effectively target assistance, it is proposed to adopt the current CHSP eligibility requirements and limit individual eligibility to those needing assistance with three or more ADLs or IADLs.

Attachment 1 - Vouchers with Services Approach

5 year full service cost for one voucher ($\$241 \times 12 \times 5$)	\$14,460
Tenant copayment (10%)	1,446
5 year services cost to State and Federal governments	\$13,014
Match by States (50%)	6,506
5 year cost of services to Federal government	6,506
5 year cost of voucher for one voucher ($\$4,628 \times 5$)	23,140
(1 year \$5,083 (1990 BA) $\times .8$ for a 1BR unit	4,066
fee	562
total	4,628)
5 year total cost of one augmented voucher	29,646
Total cost of program to Federal government (3,000 $\times$ 29,646)	\$88,938,000

Attachment 2 - 202 with Services

5 year full service cost for one person ($\$241 \times 12 \times 5$)	\$14,460
Tenant copayment (10%)	1,446
5 year services cost to State and Federal governments	\$13,014
Match by States (50%)	6,506
5 year cost of services to Federal government	6,506

2,000 units in buildings serving up to 40% frail elderly
($2,000 \times 40\% = 800$ units)

No housing cost because these are not incremental units.

Total cost of program to the Federal government ($800 \times 6,506$)	\$5,204,800
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Attachment 3 - Services in existing assisted housing

3 year full cost of services to one person ($\$241 \times 12 \times 3$)	8,676
Tenant copayment (10%)	868
3 year service cost to Federal and State governments	7,808
State match (50%)	3,904
3 year Federal cost of services to one person	3,904
Total cost of program to Federal government (5,000 people $\times$ 3,904)	\$19,520,000

5-2-89

EXTENSION AND MODIFICATION
OF THE
LOW INCOME HOUSING TAX CREDIT

Rationale

In preparing these housing proposals, HUD sought innovative and well-designed remedies for the housing affordability problems faced by many American families. Several proposals provide assistance to families attempting to become homeowners; the new rental assistance program improves the Federal Government's primary tool for directly assisting rental households. However, direct rental assistance is funded at a level which, at best, permits only modest reductions in the number of families with serious housing needs. To continue to meet the need of rental households, the Federal Government must supplement direct rental assistance with assistance through tax incentives. Therefore, HUD proposes a three-year extension of the low income housing tax credits with modifications to make the credit more efficient.

The low income housing tax credit was included in the Tax Reform Act of 1986 because Congress clearly recognized that other elements of tax reform would have a severe detrimental impact on rental housing. HUD studies indicate that the elimination of favorable depreciation and other tax benefits in tax reform will result eventually in substantial increases in rents. Recent declines in multifamily construction are the beginning of the process which will produce these rent increases. The burden of higher rents will fall predominantly on the lowest income families because higher income families will have homeownership as an option. Nothing has changed since tax reform to diminish this problem.

Although HUD believes further improvements can be made, the low income housing tax credit is a substantial improvement over previous tax incentives for rental housing. In the housing credit, the tax incentives are directly tied to the provision of low rent housing to low income families. States are given the authority to allocate credits to their most important needs, and the program encourages the participation of non-profits. The housing industry has gone through the gearing-up process for the credit. State allocations in 1988 almost quadrupled the 1987 allocations, and all indications point to heavy use of the housing credit in 1989. Failure to extend the program will cause a serious loss of momentum in the Administration's efforts to increase the affordability of housing.

Proposal

- Extend authority for the low income housing tax credit for another three years at the current allocation rate of \$1.25 per person per State.
 - Continued provision of low income housing at this rate will help blunt the impact of tax reform on rental housing.
 - Five years of program experience will give the Administration and Congress sufficient information to make a well-informed decision in 1992 on making the housing credit permanent
 - Treasury estimates the tax revenue loss for fiscal years 1990 thru 1993 from a two year extension at \$1.455 billion. This implies that a three year extension would cost \$1.740 billion for the same years.
- Maintain the same 70 percent and 30 percent credit structure with no extension of the compliance period beyond 15 years. (The Mitchell-Danforth Task Force has recommended extending the compliance period to 30 years and providing up to 100 percent credits in some cases.)
 - The current, full-capacity level of demand for the credit indicates that lack of familiarity with the credit not insufficient incentive accounted for the low usage in 1987. Therefore, there is no need to raise the credit percentages beyond the current levels.
 - Extending the compliance period would necessitate a higher level of incentives, would involve the Federal Government in long-run commitments to specific projects, and would reduce the increase in the housing stock from a given level of credit.
- Limit use of the credit to new construction and substantial rehabilitation with the exception of use for acquisition in conjunction with the HUD proposal for solving the prepayment problem. (The definition of substantial rehabilitation should be changed from more than \$2,000 per unit to more than \$5,000 per unit.)
 - Use for acquisition does not lead to net additions to the housing stock and, therefore, does not alleviate the impact of tax reform on overall rents.
 - Use in conjunction with averting prepayments may be necessary to persuade States to accept

responsibility for determining which projects should be prevented from prepayment and in negotiating agreements with the project owners.

- Limit projects receiving project-based rental assistance to the same 30 percent credit that other projects receiving Federal assistance receive.
 - Current housing credit rules can provide very deep combined subsidies to certain types of Section 8 projects, for example, Section 8 moderate rehabilitation and PHA project-based vouchers.
- Eliminate applicability of the passive loss rules to make it easier for a wider range of taxpayers to use the credit.
 - Difficulty in using the credit has been a constant criticism of the tax credit program. Under current law, this credit can reduce a taxpayer's tax liability on actively earned income only up to \$7,000 per year and ability to use the credit phases out as income increases. The Mitchell-Danforth Task Force recommends allowing taxpayers to use the credit to reduce their tax liability up to \$20,000 plus 20 percent of the liability over that amount. This recommendation is only a partial response to the problem.
 - Since there would be no additional cost to the Treasury (the dollar value of credits is not increased) and program efficiency may be increased, the Administration should favor eliminating the credit entirely from the passive loss rules.
- The three year extension should also extend the technical correction allowing carryover of allocated credits to permit owners sufficient time to place units in service.
 - This technical correction makes the housing credit easier to reconcile with the vagaries of housing construction without taking pressure off States to allocate their credit expeditiously.

Bush Proposes Savings Plan In Bid for Middle-Class Vote

By GERALD M. BOYD

Special to The New York Times

OWENSBORO, Ky., Sept. 27 — Vice President Bush attempted to bolster his appeal among middle-class voters today by proposing a tax-deferred savings plan that aides said would encourage young families to save.

But critics asserted that the plan would not offer a significant incentive to save, and even Mr. Bush's aides admitted that the benefit would be small.

Craig L. Fuller, Mr. Bush's chief of staff, said that the measure should not be regarded as a major initiative, but "one of a series of initiatives" to help low- and moderate-income voters.

Michael J. Boskin, a Stanford University professor and one of the Republican Presidential nominee's chief economic advisers, said that "it's important that the Vice President is reaching out especially to young workers to save."

Critics question the savings incentive in the plan.

Mr. Bush unveiled the plan as he spoke at the Republican State Convention in Columbus, Ohio, calling it an "Individual Savings Account," and arguing that it would increase savings by low- and middle-income Americans.

"Under my plan, taxpayers could contribute up to \$1,000 a year" to the savings account," he said. "By doing so, they will be helping themselves become better able to afford a home, pay for college or start a business and they will be helping America — by increasing investment and economic growth."

He continued: "The Bush savings plan will help keep this economic recovery going while making our future more secure. The I.S.A. is a building block for a better America."

earning less than \$50,000 a year could put a maximum of \$1,000 a year into a savings plan. Those who participate would have to make contributions for five years. No taxes would be charged on the interest and the \$1,000 would have to remain in the plan for at least five years. The contribution would not be tax deductible.

The accumulated interest would be taxed at the individual's tax rate once it is withdrawn at any point after the five years. There would be a penalty for withdrawals made before then.

Bush aides argued that people would benefit because they would be forced to save once committed to the program and because interest they earn is being compounded tax free.

Mr. Boskin said that based on a 10 percent interest rate, a person in the 28 percent tax bracket would save about \$145 in taxes if he left his \$1,000 in savings in the plan for 10 years. Moreover, he said that it would encourage young people to save because they would not have to wait until retirement age to benefit.

Dukakis Criticizes Proposal

But Robert D. Reischauer, an economist at Washington's Brookings Institution and an adviser to Mr. Dukakis, said that the relatively small financial gain and the restrictions on withdrawal would discourage participants.

Mr. Reischauer calculated that a person in the 28 percent tax bracket would save a total of \$14.70 if he took his \$1,000 investment out after five years based on an 8 percent rate of interest. If he left the savings in for 15 years and took it out, his total tax saving would be \$247.52.

At a rally in Melrose Park, Ill., tonight, Mr. Dukakis scoffed at Mr. Bush's plan to cut the capital gains tax, then ridiculed his latest proposals. "Today he discovered the rest of America, and he told us just what his priorities are. He wants to give the wealthiest one percent of America 30 thousand dollars on a tax break, the rest of us are going to get 20 bucks. That, my friends is the



Vice President Bush helping 3-year-old Jonathan Berger wave during a rally yesterday at Miami University in Oxford, Ohio. Mr. Bush proposed a tax-deferred saving plan to encourage young families to save.

Associated Press

new definition of trickle down."

The savings proposal is the latest in a series of tax breaks that the Vice President has offered as he has battled Mr. Dukakis for support for middle-income voters.

Mr. Bush has proposed a college savings bond plan in which the income would be tax free if it went to college tuition. In addition, he has proposed a refundable tax credit of up to \$1,000 to low-income families for each child.

Mr. Bush used the savings proposal and a speech to try to counter Mr. Dukakis, who talked in the debate Sunday about the need to help low- and middle-income families meet housing and medical needs.

"can't ask everything of government, you can't ask for a million new programs, because the cost will prove overwhelming," Mr. Bush said.

Asking rhetorically, what will become of children growing up in inner cities, some in "loveless" environment, he said:

"There was a time, and not so long ago, when we thought with hope that government could solve this problem, government could make it all better. Lord knows we tried. The answer is up to us."

Mr. Bush arrived here as he continued to campaign in the South and Midwest using a two-track course. On the one hand he has attempted to provide

other, he has portrayed Mr. Dukakis as being out of the political mainstream.

Saying that he had "smoked" Mr. Dukakis out during the debate, Mr. Bush accused the Democratic nominee of trying to "hide where he stands."

"We are going to keep him where he is, where he's always been in his political career and we will not let him try to be something that he is not in order to fool the American people," he said.

"He said in the primary, 'I am a strong progressive liberal,' and now he calls it dirty politics if I use the big 'L' word. I'm going to keep on using it because that's what he said he is and the American people have every right to understand that when they go to the

Leadership On The Issues

Housing And Urban Development Issues Discussed By President George Bush During The Campaign

I. Building Jobs

Remarks at Executive Club in Chicago on September 13, 1988.
I want to spread economic growth. ...That is why I am talking about rural enterprise zones...and urban enterprise zones to revitalize cities from Newark to the South Side of Chicago to Watts.

Vice President Bush's basic economic principles.
George Bush wants to spread economic growth. He has proposed urban enterprise zones to revitalize cities from Newark to the South Side of Chicago. George Bush believes in a government that sees economic empowerment of individual Americans as the key to our prosperity in the future.

II. American Challenges For The 1990s -- The American Edge

Letter to the U.S. Conference of Mayors.
Housing is another significant concern as we enter the 1990's. We need affordable housing especially in and around our cities. One way to accomplish this is to enhance the voucher program and increase its accessibility for lower-income individuals. Another way is to give more control to public housing tenants -- control that could evolve into ownership. More Americans should own their homes. Besides, the more control tenants have, the higher quality of the physical conditions of housing units. At the same time we need to find low-cost ways to maintain our public housing stock in those communities where it is needed.

Finally, the tragedy of homelessness in America needs to be addressed forcefully by public and private action. To do this we must recommit ourselves to the enforcement of existing laws like the McKinney Act. All federal agencies, especially the Department of Defense, should identify vacant space and make it available for use by the homeless. We should increase funding for community based mental health clinics, as well as for low income housing assistance. And we should develop initiatives involving federal/state/private partnerships to increase the stock of single room occupancy shelters.

Three principles should guide our efforts: 1) to bring people from dependence to independence, 2) to keep families together, and 3) to encourage people to work and, thus, contribute to our nations economy.

III. A Commitment Among Generations -- Homes, Neighborhoods, and Security

Housing

A chief goal of the Bush Administration will be to see that all American families are able to obtain decent, affordable housing. In 1980, when the prime rate was over 20 percent, housing was difficult for most Americans to afford. Now with low inflation and low interest rates, housing is again within reach of America's families.

The task for the next decade is to see that all Americans, especially young Americans, can find the homes and stable communities they need to build their lives and families. To do this, we will maintain the policies that have brought us low inflation, low interest rates, and strong job creation, which have given many Americans the income to buy homes.

A Bush Administration will be sensitive to all. We will pursue equal housing opportunity methods for providing housing to low-income and elderly Americans as well.

My economic progress will be aimed at maintaining low interest rates as an essential element of providing affordable housing. The first leg of this policy, of course, is to promote the importance of home ownership by retaining the homeowner tax deductions. Home ownership continues to be one of the highest social priorities in America. The tax Reform Act of 1986 support continued widespread home ownership through the mortgage interest tax deduction. Furthermore, my Administration will continue to support America's housing leaders' efforts to meet the needs of America's mortgage borrowers.

I support various efforts to end housing and welfare dependency. We should permit more flexibility of program implementation at the state and local level, which would allow greater experimentation with available resources. For example, under one proposal, local housing authorities and owners would be permitted to phase in or delay rent increases for tenants who are newly employed, as an incentive to keeping a job.

Finally, my Administration will continue the commitment I made over two decades ago as a young Texas congressman: to promote and maintain an amending commitment to equal housing opportunity by pursuing the full enforcement powers of Federal Fair Housing laws.

The Homeless, Housing and Fair Housing

To own a house. It's the American dream. The last time we had a democratic President, many could not afford the mortgage to reach their dream: Inflation was rampant -- peaking at 13.55 in 1980; the prime interest rate hit 21.5%; taxes took a 27% bigger bite out of the income of families trying to save for their first house. The National Association of Realtors Affordability Index is at 110% -- up from only 70% in 1981.

Over the past 8 years, the number of low income families served by federal housing programs increased 36%, to 5.7 million in FY 1988. And spending expanded 30% to 16.2 billion. Over 1.5 million elderly households benefit from HUD's subsidized housing programs, an increase of 15% over 1980.

We can do better. Homelessness cries out for a solution; low income families need help paying the rent; young families need help taking the first step toward the American Dream; and the right of Americans of all races to live where they want needs to be protected.

A. The Homeless

George Bush knows homelessness is an individual tragedy, a family tragedy -- a tragedy whose causes vary widely. This is a problem that traces back 50 years, according to a National Governors' Association Task Force. A 1986 Harvard study confirmed HUD estimates that about 350,000 people are homeless today.

Many people were forced into the street by failed policies which "reformed" mental institutions by closing them. Some are drug or alcohol abusers. Some are people who have experienced a personal trauma like divorce. Too many are families with children.

The Stuart McKinney Act is a comprehensive act to address all facets of the homeless problem. It provides funds for shelters, for single room occupancy housing, for food and for mental health and drug counseling.

George Bush believes we can end homelessness. To provide immediate aid, he will: 1) Demand the Stuart McKinney Act be fully funded. 2) Amend the Act to provide for block grants to local administrators, who can use their experience in the community to provide the assistance most needed. 3) Form public/private partnerships to fund Single Room Occupancy Housing and model the program after the Illinois Housing Authority's SRO plan.

4) Redirect some funding under the McKinney Act to provide on-site counseling at shelters to help the homeless. 5) Cut the red tape to make it easier for those in need to get government assistance. Ultimately, the poor should be able to go to one place and fill out one form to get the full array of government services available.

But in the long run, George Bush believes the solution to homelessness is a strong economy -- an economy that creates jobs. Jobs are the best way to help families afford housing; jobs build self-respect; jobs increase security; and jobs give families an opportunity to build a better life for their children.

B. Low Income Rental Housing

George Bush believes in putting more power in the hands of people, not government. He will help low income people meet rents too high for them to afford, and will enable them for the first time to own and be responsible for their own homes. George Bush will work to assure that decent housing is affordable for all families.

In the last decade, a new and exciting form of home ownership has been growing -- tenant control and ownership of public housing. The results of giving tenants control have been remarkable: more people pay their rent; maintenance improves; operating costs decline; crime rates plummet; employment goes up; education receives a new boost -- more kids stay in school and go to college where none had ever gone before.

The Urban Homesteading Plan: George Bush believes tenants in public housing projects should control and own their own homes. Furthermore, houses turned over to FSLIC and FHA by failing thrifts can be offered to low income renters to broaden the opportunities of ownership, where feasible and cost-effective.

Scholars during the 70's found that to provide the same amount of aid building subsidies cost two or three times as much as housing vouchers. The 1987 national housing vacancy rate was the highest in 20 years. What low-income families need is more of their own earned money and a little help to pay for that housing.

Nevertheless, George Bush's housing policy is flexible enough to address local areas where housing availability is a real problem. Under George Bush, the federal government will support local initiatives to build more housing.

C. First Time Homebuyers

George Bush will ask FHA to experiment with reduced minimum down payments for mortgages for first time buyers. If such loans are secure, FHA should consider dropping down payment requirements as low as \$1000, as the VA does today.

George Bush will ask FHA to experiment with regional FHA mortgage limits, reflecting the differences in the housing markets around the country. He will also increase the FHA mortgage limits as the price of homes increase.

D. Enabling Housing to Compete for Credit

In a world of global capital markets, homebuyers and builders must compete for credit in a tougher league. There is an important role for Ginnie Mae, Fannie Mae, and Freddie Mac to ensure the ready flow of funds for housing finance throughout the business cycle. In exchange for their preferential access to credit markets, they should serve low, moderate, and middle income homebuyers by sustaining an efficient secondary mortgage market.

We also want to encourage more effecient private sector access to secondary market credit, for example through the further evolution of REMIC's (Real Estate Mortgage Investment Certificates).

D. Fair Housing

George Bush voted for the Civil Rights Act of 1968. Unfortunately, twenty years later, housing discrimination is still a very real problem. This past spring and summer he worked closely with Congressman from both parties to hammer out an agreement that received near unanimous support.

As a result of his efforts, the fair housing law now has some real bite. The amendments provide for tough new penalties for violations of the Act, and makes the Act a real tool for prosecutors. George Bush will vigorously enforce the new fair housing law.

Homeless

We must enforce existing laws that benefit the homeless and make sure that the federal government meets its obligations. For example, there is an often ignored law on the books that requires the Defense Department to allow the use of vacant space in military bases as emergency shelters. Last August, the Housing Rehabilitation Task Force issued a report saying that there are 1.7 million buildings that can be rehabilitated for use by the homeless. We should implement aspects of that report.

The report by the U.S. Conference of Mayors shows that an average of 26 percent of homeless persons are severely mentally ill. We need to develop community-based mental health clinics, so that those who are in the community can receive the care they need to function in the society.

We will continue to increase the stock of low-income housing so that people on the edge of homelessness don't go on the street and the homeless can find housing. There are some good private sector projects such as the Enterprise Foundation and the Nehemiah Program in Brooklyn.

IV. A Nation of Communities

Youth Entering Service to America

George Bush believes that young people, given the leadership and opportunity, will work to address the needs of their communities, community needs that range from the greening of the roadside park, to the repair and improvement of neighborhood housing. George Bush will provide the leadership and will work with the communities of this country to ensure the opportunity.

Welfare Reform

There is a bipartisan consensus that America's welfare system is a trap door to poverty, not a ladder to prosperity. I want to turn what is now primarily a payments system with a minor work component into a system that is first and foremost a jobs system. I want a welfare system that strengthens families -- not weakens them. We can do it with a new national strategy that stresses grass roots participation, state and local involvement, and innovative ideas for reducing dependency on the federal government.

V. Opportunities For The Individual

Remarks by George Bush to the National Association for the Advancement of Colored People on July 12, 1988

Three key principles should guide our efforts on welfare reform: We should seek to keep families together, not split them apart; move recipients from dependence to independence -- off welfare and into the world of work; and involve the private sector.

I will work toward policies to enable every American to have the opportunity to own or manage their own home, to have a piece of the American dream. The legislation passed earlier this year -- allowing public housing residents to manage or buy their own projects -- is a dramatic step in the right direction.

It is just one of the steps we should take to help bring black Americans and other minorities more fully into the free enterprise system -- steps we should take not just because they are right, but because it is in the best interest of America to help economically empower everyone.

I want to help more black Americans and other minorities experience the pride and dignity of ownership, of building something in the private sector.