RECOMMENDATION

1 RESOLVED, That the American Bar Association urges federal, state, local, and territorial
governments to support the implementation of housing and community economic development
initiatives and programs in order to revitalize low- and moderate-income communities,
specifically by:

1) Establishing federal microenterprise development initiatives;
2) Increasing the Low Income Housing Tax Credit, and indexing for inflation
   thereafter;
3) Increasing funding for organizations that finance economic development activities
   that benefit or are located in low- and moderate-income communities;
4) Strengthening laws and policies to facilitate greater access to credit, particularly
   by historically underserved individuals or areas, for financing economic
   development;
5) Extending existing and creating additional tax incentive programs to promote
   private sector investment in community-based and income-targeted economic
   development activities; and
6) Providing programs that facilitate or encourage low- and moderate-income
   individuals and families to accumulate assets by saving a portion of their earned
   income in individual development accounts;

FURTHER RESOLVED, That the American Bar Association encourages lawyers, law firms,
and state, local and territorial bar associations to engage in pro bono activities that support and
assist housing and community economic development initiatives and programs that benefit low-
and moderate-income individuals or areas.
Introduction

The United States is currently experiencing large economic expansion and record lows in unemployment rates with a reduced overall poverty rate. Yet the reality is that economic benefits are not being shared equally among different segments of the population. Based on the latest statistics from the United States Bureau of the Census, one out of eight Americans is poor, one in five children is poor and the average income of poor families has fallen another $200 below the poverty line. There is a link between the reduction and weakening of basic assistance programs and the widening income deficit for families in poverty. Certainly, as the United States begins to enter the stage of a mandated decline in welfare rolls there remains a greater likelihood that the income disparity between the middle-income and the poor will grow.

This new era of welfare reform has brought about the realization that new methods of reducing poverty must be examined and considered. One such option is the prospect of revitalizing low- and moderate-income communities through the implementation of housing and community economic development initiatives. The potential appeal and success of this method is two-fold. Revitalization efforts can be tied to the current state of American economic growth and competitiveness, thereby allowing the impoverished to truly reap the benefits of economic expansion. But more importantly, with the development of a proper and sound infrastructure, individuals and families will be able to take an active role in rebuilding their own communities and creating opportunities for economic self-sufficiency.

A recent report financed by the Charles Stewart Mott Foundation suggests that the development of human capital through skill building is an essential component of the alleviation of poverty. Concentrated poverty coupled with economic segregation in housing and schooling substantially reduces the opportunity of disadvantaged individuals to succeed. The study concludes that human investment is fundamental to the creation of an effective skill building system and, more importantly, that human investment must be tied to performance. Infusions of capital must be coupled with the committed performance toward the betterment of the community by all involved. Economic development initiatives can serve as a primary vehicle to combine the resources of the governmental, private, and non-profit sectors with the efforts of individuals and families in impoverished neighborhoods as a means of enhancing their economic prospects and revitalizing their communities.

The American Bar Association has long been concerned and active in the plight of the impoverished and homeless. As part of its dedicated history, the Association has adopted policy supporting the Community Reinvestment Act, the funding and development of federally-assisted housing programs, the funding of welfare programs, and the Earned Income Tax Credit, as well as its support of numerous other programs to aid the homeless or low- and moderate-income individuals. As opportunities to alleviate these situations have arisen in the past, this Association has always attempted to develop and adopt sound and pragmatic policies that will have the most beneficial and practical effect on those involved. Toward that end, the Commission on
Homelessness and Poverty is confident that the following initiatives represent viable and effective means for revitalizing low- and moderate-income communities: establishing federal microenterprise development initiatives, increasing the Low Income Housing Tax Credit, increasing funding for organizations that finance economic development activities, facilitating greater access to credit, extending and creating tax incentive programs to promote private sector investment, and providing programs that facilitate the creation of individual development accounts. These concepts are based on the simple logic that facilitating economic self-sufficiency and community can be one of greatest tools of poverty reduction and the creation of self-worth. These standards cross partisan and ideological lines and have the capacity to contribute much to the alleviation of poverty and the revitalization of impoverished communities and historically under served populations.

Establishing federal microenterprise development initiatives.

There is no standard definition of the word "microenterprise." Rather, its meaning is best understood in the conceptual framework in which it exists. The philosophy behind microenterprise is based on the reality that very small businesses or entities founded by low-income individuals that require small infusions of start-up capital, generally between $500 and $25,000, do not have the necessary access to the commercial banking sector or other kinds of support that are frequently afforded larger and more established businesses and entities. As such, the term microenterprise can be applied to two very different populations: small businesses ("microbusinesses"), generally found to have five or fewer employees, without access to commercial banks and technical support and the entities and organizations ("microenterprise development programs") that offer aid, in the form of credit, technical assistance, training, access to market, or economic literacy, to such small businesses in an effort to help them develop into strong independent entities.

At the present time, there are more than 600 microenterprise development programs in existence in 46 states and the District of Columbia. The range of entities involved in these programs is incredibly diverse. Nonprofit organizations, community development corporations, community agencies, development banks and credit unions, the Federal government, and the business and banking community have all made commitments of some sort to support the development and success of microbusinesses. The rationale for these seemingly disparate sources of assistance can most likely be linked to the fact that microbusiness represents practical and proven entrepreneurial and self-employment opportunities that low- and moderate-income individuals can utilize as a means of alleviating poverty and creating economic self-sufficiency. The Aspen Institute recently conducted a study of several hundred entrepreneurs in seven programs. The income of 25% of the participants had risen higher than the poverty level in three years and almost half reported a significant increase in their business and personal assets. But the advantages gained by such endeavors are not restricted to the individual microentrepreneur. Rather, the benefits extend far beyond the potential for individual growth, to include the creation of jobs and the development of a sense of greater community economic development.
Microenterprise is an all-encompassing endeavor, which is clearly evidenced by its effect on the individuals and small businesses striving toward success as well as on the larger and more established organizations that seek to offer technical or monetary aid in furtherance of this goal. All of which points to the success of its philosophy. The “small” characteristics of microbusiness often lead to comparisons to “self-employment.” Self-employment has historically been regarded as a community development strategy that has the ability to touch on not only the economic aspects, but also the attendant human and family development that occurs as well. This strategy is well suited to facilitate the reduction of poverty and the restoration of human dignity, which in turn leads to greater economic self-sufficiency and community empowerment.

Microbusiness has the ability to support not only individuals, but families as well. And each resulting success allows microentrepreneurs to serve as community role models. All of which combine to create jobs and self-worth. It is a potent and positive cycle. The notion of the ability to provide individuals and families with an opportunity to achieve proven economic self-sufficiency is hardly one that can be discounted or ignored. This is a situation that affords the greatest amount of satisfaction to all involved in the process. The success of this fundamental theory can and should be replicated to the greatest degree possible. The establishment of federal microenterprise development initiatives can and will certainly contribute much to the continued success of this fundamental theory of economic self-sufficiency and greater community economic development.

Increasing the Low Income Housing Tax Credit, and indexing for inflation thereafter.

A crucial and historic method of reducing homelessness and revitalizing impoverished and underserved communities is the creation of affordable housing for low- to moderate-income individuals and families. The Low Income Housing Tax Credit (LIHTC) is the largest nationwide federal program that subsidizes the construction and rehabilitation of low-income rental housing and has subsequently become the primary tool for building affordable rental housing in this nation. Since its inception in 1986, the LIHTC has made possible the creation of nearly one million housing units that are affordable to low- and moderate-income households and has become one of the most important resources for producing and preserving affordable housing and revitalizing neighborhoods across the country.

The LIHTC promotes the collaboration of private investors, lenders, and developers with state and local governments and non-profit organizations to produce housing for low- and moderate-income households. The use of credits against tax liability is an efficient way to leverage private investment. This configuration, which combines the business discipline and competitive efficiency of the private sector with the housing needs identified by and the oversight provided by various state and local governments, has created an effective and productive alliance. It is currently estimated that 60,000 new and 40,000 rehabilitated rental units have been created each year as a result of the LIHTC. The Federal government provides each state with an annual

allocation of tax credits that they may use to leverage large amounts of capital to respond to locally identified rental housing needs. The states, generally through their state housing agencies, grant the tax credits to private investors in order to create an incentive to provide equity for rental housing developments targeted at low- and moderate-income households. The system also has built-in accountability to the recipients of the tax credits. If a housing project fails to meet specified state and federal guidelines, the housing credits can be recaptured by the states. Each state currently receives an annual per capita tax credit allocation. This tax credit of $1.25 per person has remained unchanged since its inception in 1986.

Due to inflation, the credit has experienced a significant loss in value. According to the Consumer Price Index, inflation has led to an increase in prices of over 49% since the tax credit was created. The $1.25 credit established in 1986 is worth only $0.63 in 1999. Legislation is currently pending in both houses of Congress to increase the LIHTC to $1.75 per person per state, and to permanently index the tax credit to inflation. This increase is essential to restoring the value of the credit and ensuring the continued growth of affordable housing developments. It is estimated that increasing the tax credit would result in approximately 27,000 to 30,000 new affordable rental units per year.3

Used not only to create new housing units, but also to rehabilitate existing substandard or deteriorated housing, the LIHTC is a key component in the strategy for community development and revitalization. This program has reflected a flexibility in implementation and end result. The LIHTC is not involved in the mass production of the same type of housing, rather it has resulted in various types of housing in different markets across the country. The differing needs and housing policy goals of each locale are considered carefully, which results in projects that are created for those specific and necessary requirements. Moreover, the credit has contributed to overall economic growth by generating approximately 70,000 jobs, $1.8 million in wages, and $700 million in federal taxes annually.4 Increasing the LIHTC and indexing it for inflation will allow the successful partnerships forged by the public, private, and non-profit sectors to continue to create much-needed affordable rental housing for low- to moderate-income households.

Increasing funding for organizations that finance economic development activities that benefit or are located in low- and moderate-income communities.

The leadership and resources of the public sector play a critical role in spurring economic growth in our nation’s impoverished communities. Governmental funding and organizations often provide the necessary structural framework for coordinating efforts of public, private, and non-profit sectors to provide housing and economic development opportunities where they are most needed. Congress and the Administration should provide adequate funds to support and expand

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federal programs that channel money into poverty-stricken communities and provide economic opportunities to low- and moderate-income individuals and families.

The U.S. Department of Housing and Urban Development (HUD) is the primary federal agency concerned with housing and economic development issues. Its core goal is to provide "a decent home and suitable living environment for every American family." In order to meet this primary objective, HUD's mission includes increasing affordable housing, reducing homelessness, promoting jobs and economic opportunity, and empowering individuals and communities. As a necessary means of carrying out this mission, HUD must receive adequate funding and resources to implement programs such as Community Development Block Grants, the Home Investment Partnerships Program (HOME) and Empowerment Zones and Enterprise Communities.

The primary purpose of the Community Development Block Grants (CDBG) is to assist communities with economic development, job opportunities, and housing rehabilitation with a primary focus directed toward low- to moderate-income individuals and families. Created in 1974, the CDBG is administered through the Department of Housing and Urban Development. Each year, HUD directs funding to every city with 50,000 or more in population and every county of at least 200,000 in population. Each state is also provided with funds that may be distributed to smaller towns and rural counties. There is a long list of eligible activities that may be funded by CDBG, thereby providing states and localities the flexibility to direct the funds toward the most needed projects that would benefit low-income individuals or families. Approximately $4.2 billion in funds are available annually. Nationally, states spend about 21% of their CDBG funding for economic development, on projects which range from direct loans for the establishment of businesses, upgrading public utilities or commercial buildings, to job training for low-income residents. All of these are important in attracting private investment and fostering the revitalization of communities.

The CDBG is merely one of the important HUD programs that promote economic development. Moreover, there exist other federal agencies, such as the U.S. Department of Labor, that have programs that contribute to this effort as well, many of which have been outlined elsewhere in this report. Agencies and organizations must be provided with sufficient funds to successfully implement these existing programs and to create new and innovative mechanisms that will result in the creation of economic opportunities for low- and moderate-income individuals and families.

Public funding of organizations and programs that promote sustainable economic development is a wise investment for the future. The programs created and maintained by such funding will help move individuals, families, and communities toward economic self-sufficiency and prosperity, thus alleviating their future need for public assistance programs.
Strengthening laws and policies to facilitate greater access to credit, particularly by historically underserved individuals or areas, for financing economic development.

The revitalization of low- and moderate-income communities through the stimulation of economic development is generally more successful and meets with the least amount of opposition when the local community takes an active and guiding role in the process. Community economic development at its best represents the following cycle. Local financial institutions or organizations lend to local businesses to create jobs. The creation of new jobs leads to greater possibilities of support from private, public or a combination of both services. The end result being the possible creation of even more jobs and other economic opportunities and activities. Thus is created a motivated society of individuals helping the community to grow and prosper, while at the same time individuals are able to reap the rewards and benefits of living in a vibrant and economically sound community. The success of this strategy and philosophy must begin with the integral ability of low- and moderate-income communities to access the capital necessary to achieve a self-perpetuating and growing community.

The need for low- and moderate-income communities to have access to the tools which have the potential to create economic development can be met in a variety of ways. The Community Development Financial Institutions (CDFI) Fund, a wholly owned government corporation within the U.S. Department of the Treasury, seeks to trigger economic revitalization and development in distressed urban and rural communities by promoting access to capital and local economic growth in such communities. This strategy entails utilizing limited federal resources to invest in and build the capacity and ability of private and non-profit financial institutions to engage in community development lending activities in distressed communities. The focus of CDFIs is the market of individuals and communities that have been inadequately represented and served by traditional financial institutions. CDFIs include community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds.

The Federal Housing Finance Board (FHFB), the regulator of the Federal Home Loan Bank (FHLB) system, has developed two methods by which community lending for local economic development can be facilitated. The Community Investment Cash Advance (CICA) programs and a codified FHLB standby letter-of-credit (LOC) represent the FHFB's growing role in the creation and implementation of targeted economic development programs that are not solely related to housing. The CICA programs require each FHLB to submit an annual community lending plan to the FHFB, with the end goal of providing financing for economic development projects for targeted beneficiaries. The development of the plan must involve consultation with financial institution members, non-member borrowers, and public and private economic development organizations. Standby LOCs are financial instruments issued by FHLBs on behalf of financial institution members or non-member borrowers to honor drafts of other demands for payment from third party beneficiaries. The purpose of the LOC is to provide a form of guarantee or credit endorsement that facilitate greater access to financing for economic development and housing projects through the guarantee of the obligation.

The programs and policies being developed and implemented by the CDFI Fund and the FHFB represent worthwhile examples of what can be done to aid efforts to expand community lending.
for economic development. But it is important to note, that these efforts are complemented by involvement of other entities. Individual private sector involvement is equally crucial to the success of community economic development. Private entities that seek to become involved in such activities should be encouraged to become integral parts of the communities that they service. Laws and policies should encourage and facilitate access to credit for community economic development as a means of providing individuals and communities with the opportunity to build strong and self-supporting communities and the related outcomes of personal and economic growth.

Extending existing and creating additional tax incentive programs to promote private sector investment in community-based and income-targeted economic development activities.

Historically, the promotion of community and economic development in impoverished communities has been financed almost solely by public sector funding. However, the national deficit over the past twenty years has precipitated cuts in the domestic federal programs that provide these essential services. These budget realities mean that traditional government subsidies cannot be relied upon as the sole means to spur the much needed job creation and economic growth that is necessary in traditionally underserved communities. Alternatives must be found that leverage limited public funds as a means of building the capacity of private sector institutions to finance community development in order to reinvigorate poverty stricken areas. One viable method of accomplishing this goal is to provide tax incentive programs that attract private sector investment in economic development projects in low- and moderate-income communities.

Access to credit and investment capital is essential for revitalizing neighborhoods and promoting economic development. However, in the past, poor communities have been unable to attract meaningful private sector investment due to the lack of a sufficient infrastructure to organize and implement development opportunities. Today, the focus has turned to collaborative efforts by the public, private and non-profit sectors to finance community building and revitalization projects that are profitable to the investors while meeting the needs of the communities being served.

One such mechanism is the Community Development Corporation Tax Credit, established by Congress in 1993 as a demonstration program to provide a federal income tax credit to individuals and corporations for cash grants and loans made to selected community development corporations. Twenty community development corporations (CDCs) were selected from around the country to participate in the program. The accompanying tax credit was used to raise approximately $20 million in private sector grants, loans and investments for a number of activities including small business promotion, economic development loan funds, and other development activities. Properly implemented, this credit allows CDCs to reach beyond their traditional donors, usually tax exempt entities such as foundations and government agencies, to attract grants from private individuals and institutions.
The CDC tax credit was established as a part of a larger initiative, undertaken by the Federal government, known as the Empowerment Zones and Enterprise Communities Initiative. This program designated regional zones around the country within which federal tax incentives would be combined, with direct funding for physical improvements and social services, to implement a locally controlled comprehensive revitalization strategy. The program is designed to embrace the private sector as the impetus of economic growth, with the government acting as a partner. Since the program’s inception in 1994, 72 urban Empowerment Zones and Enterprise Communities have generated an estimated $4 billion in private and public investment, created approximately 20,000 jobs, and provided education and job training to over 45,000 people. This program recognizes that private investment is necessary for sustainable economic revitalization and economic opportunity in the nation’s distressed communities, and that tax incentive programs are key components of such efforts. In 1997, Congress authorized HUD to designate another 15 new urban and 5 new rural Empowerment Zones.

Recognizing the success of combining attracting private investment through targeted tax incentives, several proposals are pending in Congress to extend current and create additional programs. These include reinstating the Historic Rehabilitation Tax Credit; enacting targeted capital gains exclusions; a commercial revitalization tax credit; employment tax credits; and environmental remediation tax credits.

Of course, efforts must be made to ensure that tax incentive programs that benefit private interests also provide benefits for the populations in the targeted communities, including generating capital investment for infrastructure, and creating employment and business opportunities for the residents in the affected areas. With appropriate planning and safeguards, targeted tax incentive programs are invaluable tools to attracting private investment capital to community economic development programs.

Providing programs that facilitate or encourage low- and moderate-income individuals and families to accumulate assets by saving a portion of their earned income in individual development accounts.

Historically, there has been little incentive or opportunity for low-income households in America to make an effort to save money or accumulate assets. In a country where the economy is experiencing its 9th year of record expansion, unemployment rates are at an all time low for the past quarter century, and the stock market is at an all time high, the statistics are sobering. Fully one third of all households within the United States have no or negative financial assets, another one fifth have negligible financial assets, roughly half of all children in America live in households with no financial assets and over 10 million households do not even have a bank account. It is abundantly clear that low-income families in the United States are not reaping the rewards or potential rewards of this country’s strong period of economic growth.

Individual development accounts (IDAs) are a mechanism that can be used to reverse such trends. IDAs are dedicated savings accounts that permit low-income individuals to save money for specific investment purposes, such as the purchase of a first home, higher education, job training, or the capitalization of a small business venture. The incentive for savings is created through matching funds, ranging from no less than $1 and generally no more than $9. These matching funds are available through public, private or a combination of both sources. The disbursement of matching funds also carries a requirement for the individual to participate in an training course that teaches basic economic concepts such as saving, investing and banking. Withdrawals are made only for the specific purposes and generally in times of hardship, such as unemployment or serious medical illness, the individual can withdraw from the savings, but will lose matching funds for that period of time. This concept runs contrary to past welfare and assistance policies which discouraged savings through the discontinuation of benefits for those who would attempt to accumulate savings; but the reality is that saving is a tool of economic and self-empowerment. Low-income individuals and families should be encouraged to take part in any opportunity that will enable them advance their own economic growth.

Tax incentives for individual economic growth are not new. Middle and upper income Americans are able take advantage of savings and asset building programs through such strategies as tax credits for retirement plans, for home mortgages, and for college educations. There is a challenge in creating a system that will allow low-income individuals and families to reap such benefits as well. The possession of assets and savings is a prerequisite for being able to participate fully in this nation’s economy. Home ownership, an education, ownership of a small business, and the accumulation of assets are tools that are necessary to survive in changing economic times. These assets can provide an individual or family with a better or more comfortable financial position in times of trouble and conversely these assets can also be used a means of accumulating more savings and assets. All of which leads to economic empowerment and self-sufficiency.

Across the nation, numerous small public, private and public-private asset building incentives are being created and tested. These programs have demonstrated much success at empowering low-income individuals and families. There is also an Individual Development Account Demonstration Program, funded out of the federal human services appropriation that authorizes the establishment of IDAs for more than 50,000 people. Clearly, some low-income individuals and families are beginning to benefit from IDAs, but more must be done. As the Federal government creates tax incentives for middle and upper-income families and individuals it must not abdicate its responsibility to provide incentives for low-income individuals as well. IDAs represent another method through which the community and individuals can work together to alleviate poverty and to promote a sense of economic self-sufficiency and to provide for the revitalization of low- and moderate-income communities.

Conclusion

Self-reliance should be a concept with which few can argue. The revitalization of low- and moderate-income communities should also evoke the same response. And certainly efforts
which would seek to alleviate poverty and homelessness should also be accorded the same level of consideration and commitment. Efforts to provide housing and economic development initiatives that would seek to revitalize low- and moderate-income communities should be supported by the American Bar Association. As it has in the past, this Association should support efforts that allow individuals and communities to serve an integral role in alleviating their own situations of poverty. The creation of a sound economic environment, with reduced poverty and financial reliance on others, is the cornerstone of the success of any community in this country. The revitalization of low- and moderate-income communities is a concept with no losers. Private and public entities that make a commitment to aiding such communities have the satisfaction of their efforts and also the likelihood that they can also reap the benefits of their success. Communities become rejuvenated and have the ability to attract more development. But most importantly, individuals develop feelings of self-worth, independence and pride in the communities in which they live. Simply put, economic self-sufficiency and community are strong and integral links in the positive cycle of sustainable economic development that serve to alleviate poverty and revitalize impoverished communities and historically underserved populations.

Respectfully Submitted,

Roger A. Clay, Jr., Chair
Commission on Homelessness and Poverty

August 1999
GENERAL INFORMATION FORM

To Be Appended to Reports with Recommendations

Submitting Entity: Commission on Homelessness and Poverty
Submitted By: Roger A. Clay, Jr., Chair

1. Summary of Recommendation(s)
   This recommendation supports the implementation of housing and community economic development initiatives and programs that would revitalize low- and moderate-income communities and historically underserved populations as a means of alleviating poverty and contributing to a sense of economic self-sufficiency and community.

2. Approval by Submitting Entity
   Unanimously approved by the Commission on Homelessness and Poverty on 5 May 1999.

3. Has this or a similar recommendation been submitted to the House or Board previously?
   No.

4. What existing Association policies are relevant to this recommendation and how would they be affected by its adoption?
   This Association has adopted policy supporting community reinvestment programs in financial institutions (February 1991), supporting increased funding and development of affordable public housing (August 1992), and supporting the earned income tax credit (February 1996). The current recommendation would complement and enhance these previously adopted policies by allowing the Association to continue to support new and different efforts to enhance the revitalization of low- and moderate-income communities and the economic prospects of their inhabitants.

5. What urgency exists which requires action at this meeting of the House?
   There is currently ongoing debate on several legislative initiatives in the 106th Congress that would seek to promote housing and community economic development programs and policies. Adoption of this recommendation would allow the Association to join the debate and express its views on this important matter.

6. Status of Legislation. (If applicable.)
   There are numerous bill which have been introduced in the 106th Congress to establish initiatives and programs as supported in the recommendation.
7. Cost to the Association. (Both direct and indirect costs.)
   n/a
8. Disclosure of Interest. (If applicable.)
   n/a
9. Referrals.
   In late May 1999, this Report and Recommendation was referred to the Chairs
   and staff of all ABA Sections and Divisions and the Chairs and staff of the
   Standing Committee on Bar Activities and Bar Services, Standing Committee on
   Pro Bono and Public Service, Commission on Domestic Violence, Commission
   on Legal Problems of the Elderly, Commission on Opportunities for Minorities in
   the Profession, the Steering Committee on Unmet Legal Needs of Children, and
   the Commission on Women in the Profession.
10. Contact Person. (Prior to the meeting.)
    Elizabeth M. Yang, Staff Director
    Commission on Homelessness and Poverty
    American Bar Association
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    202/662-1692
11. Contact Person. (Who will present the report to the House.)
    Roger A. Clay, Jr., Chair
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    50 Broadway, 17th Floor
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12. Contact Person Regarding Amendments to This Recommendation.
    There are no known proposed amendments at this time.

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