Federal Policy Ideas for Community Revitalization

Suggestions from Congressionally Hosted Roundtable Discussions of Federal Policies for Older Core Cities and Close-in Suburbs

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Northeast-Midwest Institute

The Center for Regional Policy

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Summary

Federal policy can and does help the nation's older core cities and close-in suburbs face challenges that impede their economic vitality, but federal efforts have not kept pace with growing problems. For many older communities, especially those located in the Northeast and Midwest, sluggish markets and falling populations undermine economic vitality and strain municipal resources. Federal funding cuts, gaps between federal programs and local needs, and federal program rigidities have had adverse impacts on the revitalization prospects and quality of life in America's cities. Older core cities and close-in suburbs in particular need the federal government as a partner in their revitalization efforts.

In response to a growing need for federal action, the Northeast-Midwest Institute worked with members of the Northeast-Midwest Congressional and Senate Coalitions to explore ways federal policy can help older core cities and close-in suburbs with community revitalization challenges. With funding from the Surdna Foundation, the Institute held congressionally hosted roundtables in 2005 with Sen. Jack Reed of Rhode Island, Rep. Thaddeus G. McCotter of Michigan's 11th district, and Rep. Stephanie Tubbs Jones of Ohio's 11th district to talk about policy for brownfield and vacant property redevelopment, housing, water and transportation infrastructure, business and economic development, and energy.

Here, grouped by topic, is summary information from the roundtable discussions. The full report offers more detail and background about these points and provides information about relevant legislative proposals and actions. With regard to the federal policy ideas, not every roundtable participant would endorse each of the suggestions, nor would every roundtable host or Coalition member.

Brownfields and Vacant Properties

For many cities, vacant properties and brownfield sites constitute a significant portion of the land available for development. Brownfields are abandoned or underused properties where redevelopment is complicated by actual or suspected environmental contamination. Other properties may stand vacant in locations where changing economic circumstances, deteriorating infrastructure, or weak markets have undermined private investment.

Brownfield and vacant property challenges for older core cities and close-in suburbs

- Site identification and assembly proves difficult for older communities because vacant properties are scattered, not contiguous, and generally require assessment and cleanup prior to reuse.
- Redevelopment costs are typically higher for both vacant properties and brownfields in older core cities and close-in suburbs than they are for new construction outside of such locations.
- Older cities and suburbs face fiscal constraints and a range of high priority challenges, making it difficult for them to tackle rehabilitation and redevelopment of vacant properties and brownfields.
- For brownfields, public investment is needed because sites won't work as competitive locations for new business activity if the full costs of redevelopment must be borne by the market alone.
- Municipalities may find it difficult to tap federal programs for brownfield and vacant property redevelopment action taken to prevent economic deterioration before it occurs.
- Through its housing programs, the federal government holds many foreclosed residential properties, and delays in the transfer or sale of these properties create vacant property issues.

Federal policy options and opportunities for brownfields and vacant properties

- Linking federal efforts on brownfields and vacant properties: Make it clear and known that the federal definition for brownfields allows cities to define vacant properties as brownfields and tap into federal programs for help with cleanup and redevelopment.
- EPA grants for brownfield site assessment and cleanup: *Increase overall EPA funding for site assessment and cleanup grants and raise the funding limit for the cleanup of a single site to $1 million. *Increase federal subsidies or incentives for smaller brownfield projects in order make smaller projects viable in light of legal and transaction costs. *Provide multi-purpose grants that can be used for brownfield assessment, cleanup, reuse planning, demolition, revolving loan funds, and other initiatives and activities. *Within EPA's competitive grant-making process, recognize the value of local government inventories for vacant and brownfield properties as an important step for site assessment and cleanup efforts.
- Brownfield Economic Development Initiative (BEDI) and Section 108 loan guarantees: *Decouple the Department of Housing and Urban Development's (HUD's) BEDI grants from the Section 108 loan guarantee program of the Community Development Block Grant (CDBG) program. *Increase federal funding for BEDI grants.
- Section 198 brownfield tax expensing: Make tax expensing provisions permanent and address expensing issues regarding petroleum sites and recapture penalties.
- Federal brownfields tax credit: Create a federal brownfields tax credit and implement it in a way that avoids lengthy delays for the review process.
- Eminent domain for development efforts involving brownfields: Consider the impact of any proposed eminent domain restrictions on redevelopment efforts involving brownfield properties.
- Sarbanes-Oxley provisions and contaminated properties: *Enforce Sarbanes-Oxley provisions for cases involving the inclusion of environmental liabilities and contaminated properties on company balance sheets. *Provide education and technical assistance to clarify Sarbanes-Oxley requirements about accounting for and reporting contaminated property liabilities as asset retirement obligations.
- Federal property management and brownfield and vacant property problems: *As a way to prevent abandoned properties, change HUD policy to allow residents to stay in a property that is in default until the title is transferred. *Change federal policy to expedite the process for returning vacant federal land to the market. *Congress should provide clear, statutory guidance to federal agencies on the problem of vacant federal properties in order to secure an adequate response from federal agencies.
- Land banks: *Make federal grants available for local land bank efforts, or set up new, federally funded pilot projects for land banks. *Have the federal government give land banks priority consideration regarding vacant properties.

Housing

Housing markets are critical to the economic vitality of older core cities and close-in suburbs and to the quality of life for residents. The condition of the local housing market and housing stock affect the ability of a community to retain existing residents and attract new ones.

Housing challenges for older core cities and close-in suburbs

- Weak housing markets in some core cities and close-in suburbs diminish the tax base and caused a decline in municipal services, which further erodes values in a hard-to-break cycle.
- Home lending in the subprime market can lead to unscrupulous practices that place families at financial risk and spur mortgage foreclosures and abandoned properties in older communities.
- The scattered pattern of abandoned and vacant residential properties in older cities and suburbs makes large-scale redevelopment difficult and undermines housing values.
- In cities with low home values, the costs of development may outweigh the market rewards for developers interested in housing construction or renovation.

- Government housing programs and market forces concentrate low-income residents in certain communities or neighborhoods, often where there is little access to good schools and jobs.
- Housing challenges for many older communities discourage middle-class households from living there, making it difficult for those cities to sustain economic vitality and generating tax revenues.

Federal policy options and opportunities for housing

- Predatory lending and vacant properties: *Expand the definition of high-cost mortgages to provide more borrowers with certain consumer protections under current law. *Expand federal consumer protections for borrowers in the cases of high-cost mortgages. *Establish truth-in-lending rules that require full disclosure for negative amortizing loans. *Curb predatory lending practices by making them less likely or less profitable. *Step up federal efforts to work with HUD-certified counseling agencies on foreclosure prevention. *Shift the federal government's focus away from promoting homeownership for everyone to promoting responsible home lending and homeownership. *Consider instituting a fee for the transfer or mortgages to the secondary market as a way to raise funds for vacant property redevelopment.
- Community Reinvestment Act (CRA): *Continue to employ CRA as a useful requirement that increases access to financial capital. *Consider applying CRA beyond banks and savings and loans to other financial entities. *Examine the enforcement provisions and penalties of CRA to ensure that the act has enough weight and impact to positively affect access to capital.
- HUD housing programs and environmental problems: Allow HUD housing programs to be used for properties where real or suspected environmental problems exist or where state-approved institutional or engineering controls have been used to cleanup past environmental problems.
- Housing Choice Voucher program: *Allow greater flexibility and control by local housing authorities when managing Housing Choice Vouchers in instances of problem landlords. *Adopt measures designed to encourage all municipalities to participate in the voucher program. *Raise the fair market rent levels used to set voucher payments so that program participants can rent in a broader range of locations.
- A federal homeownership tax credit: Provide a tax credit to encourage the development of affordable housing or to assist people with the purchase of an affordable home.
- Federal historic preservation tax credits: Allow the federal historic preservation tax credit for owners who rehabilitate their residence and for properties held for sale.
- Examine past federal programs and initiatives for policy ideas and models: *Revive the federal Urban Homesteading program. * Consider the Urban Development Action Grant program as a possible model for a federal Neighborhood Development Action Grant program. *Revive stand-alone vouchers for project-based, rental rehabilitations.

Water and Transportation Infrastructure

Older core cities and close-in suburbs have great needs for construction, maintenance, and replacement of public infrastructure. These municipalities typically have older water and transportation infrastructure that requires maintenance and upgrades, but many older communities with stagnant or falling populations lack the fiscal wherewithal to adequately fund needed infrastructure improvements.

Infrastructure challenges for older core cities and close-in suburbs

- Older core cities and close-in suburbs often depend upon decades-old infrastructure, which creates significant needs for replacement and upgrades.
- The design of older infrastructure systems often fails to meet current needs or address recent environmental and safety regulations.
- Wealth-creating investments by federal and state governments in water and transportation infrastructure often tilt toward newly developed areas rather than older communities.
- Cities with falling populations and shrinking tax bases face fiscal constraints that hinder public-sector investment in infrastructure.

Federal policy options and opportunities for water and transportation infrastructure

Water

- The Clean Water State Revolving Fund (CWSRF): *Increase federal funding of capitalization grants for CWSRFs. *Take legislative or administrative action to provide arbitrage relief for state revolving funds as a way to increase dollars available without additional federal appropriations.
- A federal clean water trust fund: Establish a federal clean water trust fund that uses a dedicated revenue stream to generate dollars for financing clean water infrastructure and initiatives.
- The Drinking Water State Revolving Fund (DWSRF): Increase federal funding of capitalization grants for DWSRFs.
- Reauthorization of the Clean Water Act: Reauthorize the 1987 Clean Water Act, which is beneficial to local water infrastructure efforts.
- Planning for water infrastructure: Make increased water infrastructure planning more likely among the local communities in a region.

Transportation

- Local control over transportation funding and decisions: Shift greater decision-making and more federal funding for transportation infrastructure to metropolitan planning organizations.
- Federal funding for transit systems: *Increase the actual federal share of funding for fixed-guideway and busway projects and expansions to the 80-percent level used for highway projects, instead of the 60-percent level commonly adopted. *To better serve older cities and suburbs with declining populations, avoid transit funding formulas that emphasize traffic congestion. *Structure federal transit programs and funding to recognize the need to renew older transit systems as well as build new ones.
- Intermodal: Consider establishing a clear source of federal funding for intermodal connectors.

Overlapping Infrastructure Ideas

- Coordination for federally supported road and water work: Create better coordination for federally funded road work and repairs to the water infrastructure underneath the roads.
- National center for infrastructure innovation: Establish a national center and use it to carry out research into new approaches to infrastructure challenges.

Business and Economic Development

Stagnation or decline in a city's economic and business base can lead to broader deterioration for the community and financial stress for the local government as it tries to meet demands for city services and infrastructure at a time when fiscal capacity is shrinking.

Business and economic development challenges for older core cities and close-in suburbs

- Older cities and suburbs with falling populations and shrinking tax bases face fiscal constraints that hinder public-sector investment in critical economic infrastructure.
- Economic shifts and trends may bring difficult periods of adjustment for older communities as activity moves away from industries and sectors that once formed the economic base.
- Universities, medical centers, and government facilities constitute key anchors for many older central cities, but their tax-exempt status limits the revenues municipalities can generate to pay for needed services and infrastructure.
- Older communities often lack land for new development because either they are fully developed already or past patterns of development and abandonment have left them with small and scattered parcels of available land or large tracks of contaminated property.
- The retail sector in older communities will suffer if the local population declines, if income levels are low, or if there are high concentrations of poverty.
- Wealth-creating federal and state government investments in infrastructure often tilt toward newly developed areas rather than older core cities and close-in suburbs.

Federal policy options and opportunities for business and economic development

- CDBG and the Bush administration's Strengthening America's Communities Initiative (SACI): *Reject the proposed consolidation of community and economic development programs as outlined in the SACI plan. *Continue to operate CDBG as a formula-driven program, and do not change it into a competitive grant program. *Do not alter the existing CDBG funding formula, especially in ways that would adversely affect older communities with stagnant or declining populations. *Restore federal funding for the CDBG program.
- Federal historic preservation and rehabilitation tax credits: *Make it workable to use the federal historic preservation tax credits with the federal Low Income Housing Tax Credit. *Increase the value of the credit for small projects. *Deepen the existing federal rehabilitation tax credit. *Increase the tax incentives when they are used for projects in difficult-to-develop areas.
- The Section 108 loan guarantee program: *Make Section 108 Loan Guarantees – and other federal financing programs – easier to use for smaller projects. * Decouple HUD's Brownfield Economic Development Initiative from the Section 108 loan guarantee program. *Increase federal funding for the Section 108 loan guarantee program.
- New Markets Tax Credits (NMTC): *Make it clear and known that the NMTC initiative is intended to involve larger and more sophisticated development entities in the tax credits and in development projects; too often, development entities not well-suited to the NMTC program unsuccessfully pursue independent participation in the program. *Encourage the development of NMTC outreach materials and use them to inform cities and smaller development organizations about how they can work on NMTC deployment with qualified community development entities that have received allocations.
- Small Business Administration (SBA) programs: *Focus SBA's 7(a) loan guarantee program more on lending opportunities in older core cities and close-in suburbs because in practice the guarantees often go for loans to businesses in growing suburbs and outlying areas less in need of development incentives. *Increase funds available for marketing by Small Business Development Centers. *Maintain and expand federal programs for micro lending and find better ways to market those programs.
- Economic Development Administration (EDA) programs: Consider additional criteria for program participation that reflect the needs of core cities and close-in suburbs.
- Community Reinvestment Act: *Continue to employ CRA as a useful requirement that increases access to financial capital. *Consider applying CRA beyond banks and savings and loans to other financial entities. *Examine the enforcement provisions and penalties of CRA to ensure that the act has enough weight and impact to positively affect access to capital.
- Federal program restrictions and targets: Increase the flexibility of federal development programs so that they can be used for initiatives in areas with higher incomes and less blight.
- Investment in infrastructure: Recognize federal investment in infrastructure as a key element of business and economic development efforts in older core cities and close-in suburbs, and recognize that federal funding is needed for older communities with declining populations.
- Securitization of economic development loans for sale in secondary markets: Establish the mechanisms and legal environment necessary to allow community and economic development loans to be bundled and packaged for sale in the secondary financial markets.
- Industrial Development Bonds (IDBs): Consider expanding the use of IDBs beyond manufacturing to commercial development but limit the expansion to commercial projects for infill, brownfield redevelopment, or mixed commercial-industrial use, and then only when projects are pursued on previously developed sites.
- Workforce education and training: *Emphasize education as a key strategy for increasing the employability of long-term unemployed persons and dislocated workers. *Modify the Workforce Investment Act (WIA) performance measures to focus more on education and skills in order to better serve people most in need of significant education and training. *Move WIA away from a focus on the General Educational Development (GED) test.

Energy

Energy is fundamental to powering commercial businesses, retail establishments, manufacturing plants, transportation, and everyday life. High energy expenditures reduce the money that consumers and businesses spend on other purchases and, within the dynamics of the local economy, generally pull dollars out of communities for payments elsewhere to energy producers or retailers.

Energy challenges for older core cities and close-in suburbs

- The potential impacts of rapid increases in demand for energy and slow growth in supply threaten to hinder local economies, especially among older core cities and close-in suburbs already confronting economic challenges and constraints.
- Many houses, buildings, and facilities in older core cities and close-in suburbs were constructed before much attention was paid to energy costs, consumption, and efficiency.
- For older cities and suburbs already struggling to compete in the global marketplace, the potential for change, competition, and innovation in the electricity industry holds promise for reducing local cost factors and improving economic circumstances.
- Energy costs run high for some older metropolitan areas, especially in the Northeast, and the higher costs drain more dollars from local economies and from municipal governments.

Federal policy options and opportunities for energy

- Innovation in electricity generation: Eliminate barriers to innovative energy technologies and entrepreneurs.
- Energy efficiency: *Support federal programs and initiatives that promote energy efficiency, provide research and development for new technologies, and push the federal government to lead by example. *Expand federal tax credits and incentives for energy efficiency. *Establish a national clean energy resource standard that encourages or requires state-level renewable portfolio standards to include energy efficiency from combined heat and power, waste heat recovery and recycled energy, and end-use energy efficiency.
- Regional transmission coordination: Emphasize and encourage regional transmission coordination as a way to address concerns about efficiency in wholesale electricity markets and the adequacy of electric power transmission facilities and lines.
- Incentives for renewable energy and co-generation: *Provide suitable federal incentives for renewable fuels and for innovative and efficient power generation from distributed energy technologies and systems that efficiently recycle waste heat, store energy, and produce electricity at the point of use. *Keep federal incentives stable over time so that they can be factored into longer-range decision making.
- Public benefit funds (PBFs): Find ways to align the immediate costs of shifting to new fuels, technologies, and generation strategies with the future benefits that will occur from those changes, perhaps using a federal PBF.

Identifying Federal Policy Opportunities for the Revitalization of Older Core Cities and Suburbs

Federal policy can and does help the nation's older core cities and close-in suburbs face challenges that impede their economic vitality, but federal efforts have not kept pace with growing problems. Many older communities, especially those located in the Northeast and Midwest, lag behind the nation when it comes to population growth – a trend that has adverse implications for the upkeep of existing infrastructure, the effectiveness of traditional revitalization strategies, and the flow of federal funds from programs that allocate dollars based on population. Sluggish markets and falling populations undermine the economic vitality and strain the municipal resources of older communities. These cities and suburbs struggle with population loss, brownfields and vacant properties, aging infrastructure, soft and deteriorating housing markets, decreasing economic activity, declining tax bases, and concentrations of low-income residents. Older core cities and close-in suburbs with falling or stagnant population growth need the federal government as a partner in their revitalization efforts.

The Need for Federal Action

Unfortunately older core cities and close-in suburbs face this range of tough challenges at a time of falling federal support for community revitalization. Over the five-year period from fiscal 2001 to fiscal 2006, federal funding (adjusted for inflation) has dropped for formula-driven Community Development Block Grants (down 25.9 percent), the Home Investment Partnership Program (down 11.3 percent), state revolving funds for wastewater treatment (down 40.4 percent), community development loan guarantees (down 87.9 percent), and the Department of Housing and Urban Development's brownfields redevelopment efforts (down 12.9 percent). These are programs of interest to the Northeast-Midwest Congressional and Senate Coalitions because of their regional and national importance to community revitalization. These and other federal shifts have had adverse impacts on revitalization prospects and quality of life in America's older core cities and close-in suburbs, and more federal cuts have been proposed for the fiscal 2007 budget. In addition, gaps exist between existing federal programs and the needs of older communities. And some federal programs lack flexibility or impose restrictions that make them difficult to use for revitalization projects.

In response to a growing need for federal action, the Northeast-Midwest Institute worked with members of the Northeast-Midwest Congressional and Senate Coalitions to explore ways federal policy can help older cities and suburbs with community revitalization challenges in the areas of brownfield and vacant property redevelopment, housing, water and transportation infrastructure, business and economic development, and energy. With support from the Surdna Foundation, the Institute in 2005 coordinated and facilitated three roundtable discussion sessions, hosted by members of Congress, about federal policy for the revitalization of older core cities and close-in suburbs. The roundtable discussions brought together mayors, business and community leaders, municipal and county officials, practitioners, and policy experts for facilitated conversations about possible federal policy changes and proposals. Sen. Jack Reed of Rhode Island, Rep. Thaddeus G. McCotter of Michigan's 11th district, and Rep. Stephanie Tubbs Jones of Ohio's 11th district hosted those sessions. In addition, staff from the Institute and the Coalitions organized a 2006 Capitol Hill discussion of federal policy opportunities for congressional staff and representatives of national associations and policy research organizations.

Compiling the Policy Suggestions and Ideas

In the pages that follow, the Northeast-Midwest Institute presents policy suggestions and ideas made at the 2005-06 roundtable discussion sessions. These policy options and opportunities serve as a critical starting point for new federal actions to assist older core cities and close-in suburbs. But the policy options and opportunities included in this report are just that – options and opportunities compiled from the roundtable discussions but not necessarily representing a consensus of opinion on the part of roundtable participants, their congressional hosts, or the Northeast-Midwest Congressional and Senate Coalitions. Institute staff set out to gather ideas from the roundtable sessions and offer them for review and consideration by interested members of the Northeast-Midwest Coalitions and others. Not every roundtable participant would endorse each of the policy suggestions made, nor would every roundtable host or Coalition member. That said, the list of policy suggestions and ideas collected by the Northeast-Midwest Institute are a valuable resource for federal policymakers as they consider ways to bring needed revitalization and change to older core cities and close-in suburbs.

The majority of the policy suggestions and ideas included in this report were drawn from comments made at the three congressionally hosted roundtable discussion sessions in 2005. Some stem from follow-up correspondence and conversations initiated by roundtable participants, and some are drawn from the policy experts and congressional staff who attended the 2006 Capitol Hill discussion. In addition, staff at the Institute helped shape some of the ideas from the discussion sessions into concrete federal policy suggestions.

The Roundtable Sessions

The roundtable discussion sessions explored existing federal policy, current policy proposals, and new policy ideas. Participants reviewed topic-specific background papers that identified critical issues for older communities and listed key federal programs and efforts. (See Appendix A for descriptions of notable federal initiatives.) In all, 145 people participated in congressionally hosted roundtable sessions held in Cleveland, in Livonia near Detroit, and in Pawtucket. Another 25 policy experts participated in the 2006 Capitol Hill discussion. (See Appendix B for a list of all participants.)

In the coming months and years, the Northeast-Midwest Institute will build upon the suggestions and ideas from these roundtable sessions to inform members of the Northeast-Midwest Congressional and Senate Coalitions about existing challenges and policy options for older cities and suburbs, offer support for policy development, and provide ongoing stewardship for critical issue areas and policy efforts important to the quality of life in older communities. The research presented in this report offers useful guidance for federal action.

Brownfields and Vacant Properties

Challenges for Older Core Cities and Close-in Suburbs

For many cities, vacant properties and brownfield sites constitute a significant portion of the land available for development. Brownfields are abandoned or underused properties where redevelopment is complicated by actual or suspected environmental contamination. Other properties may stand vacant in locations where changing economic circumstances, deteriorating infrastructure, or weak markets have undermined private investment. A 1999 survey of cities with populations of more than 100,000 found that vacant land accounted for about 15 percent of the total land area on average for the 83 cities that responded. Brownfields and vacant properties depress property values, discourage investment, foster blight, and dampen tax revenues for local governments. Older communities need to promote the redevelopment of vacant properties and brownfield sites as a way to revitalize their economic base and in order to offer viable alternatives to development that might otherwise occur outside their borders in newer locations.

Older core cities and close-in suburbs with slow-growing or falling populations face a number of important challenges when it comes to the redevelopment of vacant properties and brownfields, including the following.

Property identification and site assembly: In many older central cities, vacant properties are relatively common but scattered in terms of location. Cities face the challenge of identifying vacant properties, which in and of itself can be a difficult task. Many cities lack the geographical reporting systems needed to track vacant land and have yet to establish methods to inventory or prioritize brownfield sites for cleanup and reuse. Even when properties are identified, cities face the challenge of assembling the scattered sites into a block of contiguous land suitable for development. The greater the level of economic distress in a city or neighborhood, the greater the scale of redevelopment needed to reverse the decline, making site assembly all the more challenging for some communities.

Redevelopment costs: The costs of redevelopment are typically higher for both vacant properties and brownfields in older core cities and close-in suburbs than they are for new construction outside of such locations. The higher costs stem from work needed to assemble individual parcels into one site for large projects, to tear down existing buildings, and to clean up the site. In older communities, developers may face additional costs from city regulations and procedures for project review and approval. Prospective brownfield developers may need to pledge an above-average rate of return to their investors or lenders to persuade them to take on a project with greater perceived risk. Brownfields also carry additional underwriting costs for activities such as environmental data collection and analysis, additional testing, and independent corroboration of collateral value – transaction costs that some banking analysts estimate have tripled since the emergence of brownfield issues in the last 10 to 15 years. Finally, lenders usually require brownfield developers to have at least a 25-percent equity stake in a project in order to make sure that the borrower has sufficient capital at risk. For distressed cities or communities, the market value of redeveloped properties – brownfield or vacant – often falls well short of the investment return necessary to make the redevelopment feasible.

Competing priorities and municipal capacity: Older cities and suburbs face strict fiscal constraints and a range of high priority challenges, from public safety and crime to youth programs to the upkeep of aging streets and other infrastructure. Under those circumstances, municipalities may lack the capacity – or even the expertise – to effectively address rehabilitation and redevelopment of vacant properties and brownfields.

Need for public investment: In most brownfield circumstances, sites won't work as competitive locations for new business activity if the full costs of redevelopment must be borne by the market alone. The many challenges and costs of brownfield development create a private financing gap that requires public investment. Successful public financing programs for brownfield redevelopment do one or more of the following:

- *Reduce the lender's risk* through such tools as loan guarantees and companion loans that ensure a minimum return, and through environmental insurance that limits the borrower's exposure to unforeseen problems that affect the value of collateral or the borrower's ability to pay.
- *Reduce the borrower's financing costs* through such tools as tax-exempt financing and low-interest loans or subsidized interest costs on project loans. Some programs provide loan packaging and technical assistance to reduce the borrower's costs for loan underwriting and documentation.
- *Offer terms or incentives to improve the project's cash flow* through such tools as tax abatements, tax credits, and grace periods that can help improve the project's cash flow and make the project numbers work. Similarly, training and technical assistance services can offset project costs and reduce a site re-user's need for cash.
- *Offer assistance or information* to increase the lenders' or investors' comfort levels through performance data for new technologies or institutional controls, or insurance that can help transfer risk and make lenders more comfortable with a brownfield project.
- *Provide direct financing assistance* because money for site assessment and cleanup is the hardest piece of the financing puzzle to solve, and so more and more governments provide grants and forgivable loans for this purpose.

Limited focus of federal and state assistance: Struggling older communities where private investment is hard to come by may benefit most from the redevelopment of vacant properties for mixed-used or mixed-income purposes as a way to expand their base of middle-class residents and healthy businesses. However, some of the federal programs used to address redevelopment issues for vacant property and brownfields – notably the Community Development Block Grant program – generally restrict local governments to using grants for projects that assist low- and moderate-income persons or target low-income areas or pockets of blight, making it difficult for municipalities to tap those programs for higher-end redevelopment efforts or for initiatives designed to prevent economic deterioration before it occurs or takes root.

Foreclosed properties from federal housing efforts: In older core cities and close-in suburbs, some foreclosed residential properties that become vacant or are at risk of becoming vacant are held by the federal government through federally supported home-ownership programs. The U.S. Department of Housing and Urban Development (HUD), the Federal Housing Administration (FHA), the Veterans Administration, federally chartered Fannie Mae, and federally chartered Freddie Mac all hold portfolios of foreclosed properties. Policies and complications regarding transfers or sales may leave these foreclosed properties vacant for long periods of time, exacerbating vacant property issues for cities.

Federal Policy Options and Opportunities

Overarching themes and issues

A number of overarching themes emerged from roundtable discussions about federal policy for brownfields and vacant properties in older core cities and close-in suburbs. Many of the specific policy suggestions and ideas listed below tie back to these macro-level themes. The themes include the following:

- Older core cities and close-in suburbs need flexibility with regard to federal programs.
- Federal programs should work better for smaller projects.
- The federal government should work across agency boundaries to help cities address both brownfield and vacant property problems.
- Brownfield and vacant property challenges for older core cities and close-in suburbs are made worse by higher redevelopment costs, usually linked to land assembly issues and previous use.
- Older communities face significant barriers to site assembly for redevelopment.
- Emerging land bank models offer great promise for cities coping with brownfield and vacant property problems.
- Federal funding for brownfields programs should be restored in some cases and increased in others.

The Northeast-Midwest Institute gathered the following policy suggestions and ideas primarily from congressionally hosted roundtable discussion sessions and offers them as an important starting point for consideration of federal action to assist older cities and suburbs. These policy suggestions and ideas, however, do not represent a consensus of opinion on the part of roundtable participants, their congressional hosts, or the Northeast-Midwest Congressional and Senate Coalitions. Not every roundtable participant would endorse each of the policy suggestions included here, nor would every roundtable host or Coalition member.

Links between federal efforts on brownfields and vacant properties

Background

Typically brownfields and vacant properties have been viewed as separate challenges for older communities. From the standpoint of federal policy, HUD generally focuses on vacant property problems, and the U.S. Environmental Protection Agency (EPA) generally focuses on brownfields. However the difficulties posed by brownfields and vacant properties are very similar, and vacant properties often involve brownfield complications because of actual or perceived contamination issues. Older cities and close-in suburbs are able to tap federal brownfield programs to address vacant property problems because the federal definition of brownfields can include vacant properties. As stated in the Brownfield Revitalization Act of 2002, the federal government defines brownfield sites as “real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant or contaminant.” The blurring of distinctions between brownfields and vacant properties has helped cities take a comprehensive approach to abandoned properties and better coordinate initiatives.

Policy suggestions and ideas

Make it clear and known that the federal definition for brownfields allows cities to define vacant properties as brownfields and tap into federal programs for help with cleanup and redevelopment. Coordinated action on vacant properties and brownfields, together, advances local efforts to return abandoned, idled, and underused properties to productive use.

EPA grants for brownfield site assessment and cleanup

Background

Brownfield site assessment grants from the U.S. Environmental Protection Agency typically provide up to $200,000 each to local governments, states, tribes, and such entities as redevelopment agencies, regional councils, and land clearance agencies in order to fund a variety of pre-cleanup activities needed to spark redevelopment for brownfields. Primary activities include site assessment, identification, characterization, and response; cleanup planning and design; and community outreach for education and planning. For cleanup grants, EPA typically provides up to $200,000 each to fund cleanup at brownfield sites owned by the recipient of a grant. A 20-percent match is required. Eligible recipients include non-profit organizations for sites that they own, as well as the governments and entities eligible for site assessment grants. Municipal governments focus their site assessment and cleanup efforts on properties owned by governments, not privately owned sites, both because a municipality might not have access to privately held sites and because if a private owner benefits from EPA-funded site assessment and cleanup efforts, that owner must pay the program back.

Policy suggestions and ideas

- Increase overall EPA funding for site assessment and cleanup grants and raise the funding limit for the cleanup of a single site to $1 million.
- Increase federal subsidies or incentives for smaller brownfield projects in order make smaller projects viable in light of proportionately higher legal and transaction costs.
- Provide multi-purpose grants that can be used for brownfield assessment, cleanup, reuse planning, demolition, revolving loan funds, and initiatives and activities.
- Within EPA's competitive grant-making process, recognize the value of local government inventories for vacant and brownfield properties as an important step for site assessment and cleanup efforts, one that helps communities plan for and prioritize their efforts.

Related legislative actions, proposals, and observations

Members of the Northeast-Midwest Congressional and Senate Coalitions have called upon congressional appropriators to provide $250 million in funding for the EPA brownfields program in fiscal 2007, up from the $165 million appropriated by Congress in fiscal 2006.

The Brownfield Economic Development Initiative and Section 108 loan guarantees

Background

HUD's Brownfield Economic Development Initiative (BEDI) grants provide additional security to recipients of Section 108 guaranteed loans and also provide additional financial assistance for aspects of the development projects that use those loans. HUD awards BEDI funds annually on a competitive basis. BEDI grants may be used to pay a portion of a project's cleanup or development costs, thereby reducing overall financial liability, or they may be used as loan-loss or debt reserves. In practice, the law limits BEDI availability to the entitlement cities of the Community Development Block Grant (CDBG) program – cities that have the capacity to secure a required companion Section 108 loan guarantee. State governments can – but rarely do – use state-wide CDBG dollars for Section 108 loan guarantees on projects for small cities. The Section 108 loan guarantee program allows communities to pledge current and future CDBG dollars as security for loans used to carry out large-scale economic development and revitalization projects.

Policy suggestions and ideas

- Decouple HUD's BEDI grants from CDBG's Section 108 loan guarantee program.
- Increase federal funding for BEDI grants.

Related legislative actions, proposals, and observations
The Brownfields Redevelopment Enhancement Act, introduced by Rep. Gary Miller (R-CA) in January 2005 and passed by the House in December 2005, would authorize HUD to make BEDI grants without requiring a companion Section 108 loan guarantee, which in practice opens up the program for use by small cities and Indian tribes. Members of the Senate have developed companion proposals. With regard to funding, the co-chairs of the Northeast-Midwest Congressional and Senate Coalitions in early 2006 urged the Bush administration to support $25 million for BEDI grants in fiscal 2007 – a level $15 million higher than fiscal 2006 BEDI appropriations.

Brownfield tax expensing

Background
Section 198 brownfield expensing is the only brownfield incentive program targeted to private-site owners, and it allows them to recover brownfield costs in the year they are incurred rather than over the life of the property. Site owners can use expensing for cleanup costs and related spending on site assessment, ongoing monitoring, institutional or engineering controls, and state cleanup program fees. First authorized by Congress in 1997, the measure was set to expire at the end of 2003 but has been extending by Congress through 2006, or through 2007 for areas of the country affected by Hurricane Katrina. Congress has been interested in a permanent extension of tax expensing and also in modifications designed 1) to make petroleum sites eligible for expensing (the original definitional language was adopted before the 2002 brownfield law included eligibility for petroleum sites); and 2) to limit recapture penalties in order to allow use of this incentive by developers who do not intend to be end users of sites. Use of the tax expensing provision has been somewhat limited, and more site owners might take advantage of the program if information about it were shared more broadly with the business community.

Policy suggestions and ideas
Make tax expensing provisions permanent and address expensing issues regarding petroleum sites and recapture penalties.

Federal brownfields tax credit

Background
A federal brownfield tax credit would allow developers to offset a portion of their federal income tax with remediation expenditures. According to the federal Government Accountability Office, brownfield stakeholders believe such a tax credit would attract developers to brownfield sites.

Policy suggestions and ideas
Create a federal brownfields tax credit and implement it in a way that avoids lengthy delays for the review process.

Related legislative actions, proposals, and observations
Rep. Michael Turner (R-OH) has introduced America's Brownfield Cleanup Act, which would allow private owners and developers to seek an income tax credit of up to 50 percent to offset demolition and remediation costs for efforts – including petroleum cleanups – carried out according to state-approved cleanup plans. The legislation would authorize $1 billion in federal tax credits, to be allocated to states based on population size. Credits would be distributed by states – likely through redevelopment agencies – for local projects based on criteria such as the extent of contamination, poverty level, number of jobs created, and owner's financial commitment to redevelopment. In an effort to generate more widespread support for his bill, Rep. Turner dropped

controversial provisions that would have altered the federal liability relief structure for owners of sites that use the credit. One of the challenges he has faced is structuring an approach that allows for participation by potentially responsible parties who want to take action but that allows such participations without opening up a loophole in the polluter-pays principle.

Eminent domain for economic development efforts involving brownfields

Background
A June 2005 U.S. Supreme Court decision in *Kelo v. New London* upheld a municipality's right to exercise the power of eminent domain for economic development purposes. In response, federal and state lawmakers have proposed limits to the use of eminent domain for property acquisition in cases where the action benefits private parties rather than public purposes. Provisions in the fiscal 2006 appropriations legislation for the U.S. Departments of Treasury, Transportation, and HUD included language designed to restrict the exercise of eminent domain by prohibiting the use of federal dollars when eminent domain is employed unless the funding is for a brownfield project or a defined public-purpose activity.

Policy suggestions and ideas
Consider the impact of any proposed eminent domain restrictions on redevelopment efforts involving brownfield properties. Roundtable participants expressed concerns that legislative action to limit the use of eminent domain would make it difficult for communities to secure land for redevelopment, especially in the case of brownfields and vacant properties. They said that the loss of eminent domain would have a negative impact on the ability of cities to do site assembly and larger scale infill economic development.

Related legislative actions, proposals, and observations
Federal proposals to restrict federal funding when eminent domain is used include H.R. 4128, introduced by Rep. James Sensenbrenner (R-WI) and passed by the full House in 2005, and S. 1313, introduced by Sen. John Cornyn (R-TX) and pending in the Senate. Further action on federal legislation concerning eminent domain and federal funding is expected in 2006. Some of the legislative proposals include an exception for cases where eminent domain is used for brownfields if doing so helps address an imminent threat to health and safety.

Sarbanes-Oxley provisions and contaminated properties

Background
The Sarbanes-Oxley Act of 2002 concerning financial reporting and disclosures by publicly held companies indirectly influences environmental liability issues for those companies. Sarbanes-Oxley requires top corporate officials to take personal responsibility for financial reports and for internal controls and disclosures regarding company finances. Under Sarbanes-Oxley, a company must disclosure a range of financial and non-financial information, including contingent liabilities. A company that fails to disclose information may be judged to have misled investors, and so Sarbanes-Oxley has led to increased interest among publicly traded companies in existing rules regarding environmental liabilities and reporting procedures for contaminated properties.

Policy suggestions and ideas

- Enforce Sarbanes-Oxley provisions for cases involving the inclusion of environmental liabilities and contaminated properties on company balance sheets in order to spur companies to move such properties off their books. This would influence treatment of other vacant or abandoned sites, also.

- Provide education and technical assistance to clarify Sarbanes-Oxley requirements about accounting for and reporting contaminated property liabilities as asset retirement obligations.

Federal property management and brownfield and vacant property problems

Background

As the nation's largest landowner, the federal government has a significant impact on local neighborhoods and communities through its management of property. Federal agencies can support local revitalization efforts through real estate policies that coordinate action with municipal governments regarding vacant and abandoned properties. Federal agencies may hurt the viability and vitality of communities though poor management of vacant and brownfield sites. Blight can result from delays in the process of returning vacant federal land to the market. When borrowers default on financing that involves federal agencies and when lenders then take over the property, those lenders must yield the titles and deeds to HUD or another relevant federal agency. If the lender fails to act on the title and deed, then the federal agency cannot take action on the property, and the properties stand vacant.

Policy suggestions and ideas

- Change HUD policy to allow residents to stay in a property that is in default until the title is transferred. Continued residency would help prevent abandoned properties.
- Change federal policy to expedite the process for returning vacant federal land to the market. One way to change the federal policy would be to move federal property into local land banks or allow asset control by community development corporations (CDCs). As a potential model for asset control, Ohio allows courts to appoint CDCs to take receivership of abandoned and nuisance properties and clean them up, recouping the funds they expend through a priority claim on dollars from the resale of the receivership properties.
- Congress should provide clear, statutory guidance to federal agencies on the problem of vacant federal properties. Congress must be explicit on the issue because federal agencies have not responded adequately to past congressional interest in and encouragement of faster action on federal vacant properties.

Land banks

Background

The foreclosure process is meant to put properties back on the market, but too often the process leads to vacant properties because of problems with liens and titles. Public authorities create land banks to efficiently acquire, hold, manage, and disperse tax-foreclosed property with clear title. Land banks can use legal tools and pool properties to ensure that tax-foreclosed sites are sold and developed instead of being left vacant. If a community can treat all vacant properties as a single real estate portfolio through a land bank, then the land bank can be self-sustaining and self-supporting.

Policy suggestions and ideas

- Make federal grants available for local land bank efforts, or set up new, federally funded pilot projects for land banks.
- Have the federal government give land banks priority consideration regarding vacant properties by, for example, making land banks the favored way to dispose of federal property and offering tax credits for vacant properties controlled by land banks.

Housing

Challenges for Older Core Cities and Close-in Suburbs

Housing markets are critical to the economic vitality of older core cities and close-in suburbs and to the quality of life for residents. The condition of the local housing market and housing stock affect the ability of a community to retain existing residents and attract new ones. Housing also influences the local economy, with housing and housing-related transactions constituting an important source of economic activity. And cities depend heavily on taxes from residential properties to generate funding for municipal services and infrastructure. Because household income levels are important to the viability of a community, older central cities and close-in suburbs need housing suitable for a range of residents, from low- and moderate-income households to people with higher incomes. A city's residents make the investments and purchases that build up neighborhoods and communities.

Older cities and close-in suburbs with slow-growing or falling populations face a number of important challenges when it comes to housing, including the following.

Low home values: Home buyers will avoid locations with declining home values and instead choose to live in places where their investment in a home will lead to financial gain. Stagnant and declining home values also mean little or no financial return for a city's existing home owners, who consequently miss the positive economic impacts and the upward mobility that flow from rising home values. In some core cities and close-in suburbs, weak housing markets and depressed prices have diminished the tax base and caused a decline in municipal services. In a hard-to-break cycle, diminished city services prompt residents who have the option of relocating to do just that, which further erodes property values, tax revenues, city services, and the quality of life.

Predatory lending practices: Home lending in the subprime market may offer capital to people who otherwise would not have access to mortgages, but it also can lead to unscrupulous practices that place families at financial risk and spur mortgage foreclosures and abandoned properties in core cities and older suburbs. Subprime loans do not meet the underwriting standards of banks, thrifts, and mortgage companies, nor do they adhere to the underwriting guidelines of Fannie Mae and Freddie Mac. Poorly regulated subprime lenders often extend risky loans – at high interest rates and with large fees – to existing home owners or people looking to buy. In the end, borrowers may lose their homes, and the properties may sit vacant.

Vacant properties: Patterns of abandoned and vacant property often leave older communities with available land scattered in small parcels, which are difficult to develop in piecemeal fashion. In places where the housing market is weak, low demand for housing units will lead to vacancies and abandonment. In addition, vacant properties may undermine the housing values in neighborhoods and in this way reduce the potential profits for investors interested in developing or renovating housing on abandoned sites. In some cases, vacant housing results from long, bureaucratic delays that occur after foreclosures involving the U.S. Department of Housing and Urban Development and other federal entities.

Costs versus profits for housing development: In cities with low home values, the costs of development may outweigh the market rewards for developers interested in housing construction or renovation. This problem is often exacerbated by the higher costs that developers face for projects undertaken in older core cities – costs that stem from the need to carry out environmental assessment and remediation on older sites, from the time and expense required to consolidate multiple existing parcels into a suitable site for new development, from higher costs for security and site insurance, and from a community's process for review and approval of project plans. In the absence of government subsidies, high costs and low values may preclude new housing development in some areas of a city. But government subsidies themselves can add to project complexities and costs as developers navigate the ins and outs of government programs. In addition government subsidies can mask the true market value of homes in an area.

Concentrations of low-income residents: Low-income households will be drawn to communities with low housing values because that is where they can find affordable housing. Government housing programs may further concentrate low-income residents in a community through requirements that the programs be of benefit to low- and moderate-income households. Cities where low-income housing constitutes a disproportionate share of the housing stock may lack the tax base needed to support critical municipal infrastructure and services. According to Harvard University's Joint Center for Housing Studies, federal housing programs and tax credits have concentrated residents in high-poverty neighborhoods where there is little access to good-quality schools and jobs.

A missing middle class: The housing challenges that face many older communities – declining home values, vacant properties, and concentrations of low-income residents – work against the likelihood that middle-class households will choose to live there. Absent a base of residents that includes middle-income earners, cities will have a difficult time sustaining their economic vitality and generating the tax revenues needed to finance municipal services and infrastructure. In older, struggling cities, residents who move into the ranks of the middle class may also choose to move out of town.

Federal Policy Options and Opportunities

Overarching themes and issues

A number of overarching themes emerged from roundtable discussions about federal policy for housing in older core cities and close-in suburbs. Many of the specific policy suggestions and ideas listed below tie back to these macro-level themes. The themes include the following:

- Predatory lending practices for home loans create vacant property problems.
- Low home values in older communities make housing development and redevelopment difficult.
- Older core cities and close-in suburbs benefit from efforts and funding offered through existing federal housing programs and initiatives, including the Community Development Block Grant program, Low Income Housing Tax Credits (LIHTC), Housing Choice Vouchers, the Home Investment Partnerships program, Hope VI, the Community Reinvestment Act (CRA), and the Section 4 program for building the capacity of community development corporations.
- Program requirements and federal agency policy can complicate or inhibit efforts in older communities to cope with housing challenges.
- Federal funding for housing programs should be restored in some cases and increased in others.

The Northeast-Midwest Institute gathered the following policy suggestions and ideas primarily from congressionally hosted roundtable discussion sessions and offers them as an important starting point for consideration of federal action to assist older cities and suburbs. These policy suggestions and ideas, however, do not represent a consensus of opinion on the part of roundtable participants, their congressional hosts, or the Northeast-Midwest Congressional and Senate Coalitions. Not every roundtable participant would endorse each of the policy suggestions included here, nor would every roundtable host or Coalition member.

Predatory lending and vacant properties

Background

Home lending in the subprime market may offer capital to people who otherwise might not have access to mortgages, but it also can lead to unscrupulous, predatory practices that place families at financial risk and spur mortgage foreclosures and abandoned properties in core cities and older suburbs. Abandoned properties drag down property values and reduce tax revenues for communities. Roundtable participants discussed the problems of predatory lending that traps borrowers in precarious financial arrangements. They also raised the issue of property flipping by predatory lenders – cases where lenders structure home loans designed to encourage strapped borrowers to refinance soon after their original loans and to do so with the original borrower at high fees and in ways that stripped the home owner of equity. Property flipping also refers to practices of buyers who use unscrupulous appraisers and other parties to secure home loans worth more than the value of the homes they purchase, and they then default on the loans, leaving lenders with the overvalued properties and communities with abandoned houses. According to research from HUD, subprime loans are three times more likely in low-income neighborhoods than in high-income neighborhoods and five times more likely in minority neighborhoods than in white neighborhoods.

Policy suggestions and ideas

- Expand the definition of high-cost mortgages using lower interest rate triggers and mortgage fee triggers for certain consumer protections currently offered under the Home Ownership Equity Protection Act, because doing so would bring more predatory mortgages under this law.
- Expand the protections under federal law for borrowers with high-cost home loans by taking actions such as the following in cases of high-cost mortgages only:
    a) Restricting creditors from financing any portion of points, fees, or charges that exceed a set, small percentage of the loan up to a set amount, and restricting creditors from financing such charges on loan refinances within a short, set time after the initial loan;
    b) Prohibiting lenders from penalizing borrowers after a short, set time period for paying down or paying off home loans in advance of the repayment schedule;
    c) Prohibiting the upfront payment or financing of credit insurance for life, disability, or unemployment on the basis of a single premium;
    d) Limiting mandatory arbitration clauses that require arbitration or other non-judicial settlement as the sole method of settling disputes arising from loan agreements.
    e) Prohibiting balloon payments for mortgages, which in predatory lending often mask the total cost of a high-cost loan and force the borrower to refinance;
    f) Requiring that creditors annually report favorable and unfavorable payment histories to credit bureaus.
- Establish truth-in-lending rules that require full disclosure for negative amortizing loans in order to ensure that borrowers understand the ramifications of these interest-only loans because an interest-only loan, or an interest-only loan that converts to an adjustable rate mortgage, can be high-risk for certain borrowers. Disclosure requirements for negative amortizing loans could be patterned after the disclosures required under the Homeownership and Equity Protection Act, which amended the Truth in Lending Act.
- Curb predatory lending practices by making them less likely or less profitable, perhaps by:

a) Considering pre- and post-lending requirements for the financial education of borrowers to help them avoid or address predatory lending problems (but recognize that if not done properly by appropriate educators such efforts could make predatory lending worse);
b) Seeking agreements from investment houses not to purchase and securitize loans that have predatory features. Such agreements could be patterned after Fannie Mae's guidelines for responsible lending (see guidelines at http://www.fanniemae.com/faq/231001q.jhtml?p=FAQ).

- Step up federal government efforts to work with HUD-certified counseling agencies on foreclosure prevention, and perhaps create enforcement positions within those counseling agencies to help prosecute predatory lenders and mortgage brokers identified through counseling efforts.
- Shift the federal government's focus away from promoting homeownership for everyone to promoting responsible home lending and homeownership, otherwise the practical impact of federal policies may be to encourage borrowing by persons who cannot afford it and who then default on their home loans, leaving communities to cope with the resulting foreclosed, vacant properties.
- Consider instituting a fee for the transfer or mortgages to the secondary market as a way to raise funds for federal, state, or local government pools that could finance the return of foreclosed and vacant properties to productive use. A fee would be applied to the secondary market because that market allows subprime lenders to avoid the risks of making irresponsible loans, however such a fee would likely increase borrowers' transaction costs for home loans.

Related legislative actions, proposals, and observations
Rep. Stephanie Tubbs Jones (D-OH) has introduced the Predatory Lending Practice Reduction Act in order to limit unscrupulous lending practices that undermine homeownership for low-income households and lead to vacant properties in communities. The legislation would require mortgage brokers and other related service agents involved in the subprime loan market to be trained and tested on the rules and regulations pertaining to mortgage lending; would fund training and educational programs by community development corporations designed to enhance awareness of predatory practices; would create minimum disclosure standards to protect the rights of mortgage borrowers; would establish an escalating civil penalty payment scale for violators of federal regulation; and would encourage creditors to create best practices plans and good faith resolution standards to slow the escalating number of complaints. Sen. Paul Sarbanes (D-MD) expects to introduce legislation in 2006 aimed at predatory lending and similar to legislation he proposed in the 108th Congress, calling for an expanded definition of high-cost mortgages that would bring more predatory lending under the consumer protection provisions of Home Ownership Equity Protection Act and also calling for increased protections for borrowers with high-cost mortgages.

Federal historic preservation tax credit (also addressed in Economic Development)

Background
Federal historic preservation tax credits, administered at the federal level by the National Park Service and the Internal Revenue Service, offer a 20-percent tax credit on private investment in the rehabilitation of income-producing historic properties, including offices, warehouses, factories, hotels, retail stores, and rental housing. In addition, a 10-percent credit is available for work on income-producing buildings constructed before 1936 but not designated as historic. Federal historic preservation tax credits for rehabilitation have been critical to development efforts in many older communities because older communities have the older buildings that qualify for tax credits. As it stands, the federal tax credit cannot be used for the redevelopment or rehabilitation of privately owned housing that is not income producing because the tax credits are restricted to depreciable properties. The National Trust for Historic Preservation has pursued a federal tax

credit for home owners who rehabilitate their historic homes, but the concept has not garnered broad support from Congress. Some states offer it, however.

Policy suggestions and ideas

Allow the federal historic preservation tax credit for owners who rehabilitate their residence and for properties held for sale, which would include properties rehabilitated and then sold by a developer rather than occupied by that developer.

Related legislative actions, proposals, and observations

Reps. Phil English (R-PA) and William Jefferson (D-LA) have proposed the Community Restoration and Revitalization Act – co-sponsored by Rep. Stephanie Tubbs Jones (D-OH) and others – that would change the federal rehabilitation tax credit in a number of ways, including increasing the credit for projects in distressed areas, eliminating or reducing the basis calculations that adjust the credit value of eligible projects downward, allowing the credit to be paired with the federal Low-Income Housing Tax Credit for certain projects, increasing the credit from 20 to 40 percent for smaller projects of $2 million or less that fit with main-street-type development, and making housing that is owner-occupied and not income-producing eligible for the 10-percent credit now available for work on buildings built before 1936 but not designated as historic.
The legislation also includes a provision that removes payback requirements for tax credit properties that are converted to condominiums.

Community Reinvestment Act (also addressed for in Economic Development)

Background

The CRA requires federal regulators to evaluate how well federally insured financial institutions meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Provisions apply to banks and savings and loans. Federal regulators take the CRA track record into consideration when reviewing applications for mergers, acquisitions, and branch openings. The law helps expand home lending, prevent red-lining, and increase financing for housing and economic development in core cities, older suburbs, and elsewhere. CRA provisions apply to banks and thrifts. Recently instituted changes to CRA expanded the small-bank category to create a class of intermediate small banks in order to reduce the regulatory burdens on banks with assets of $250 million to $1 billion. The changes also expanded the definition of community development to include activities in designated disaster areas and in distressed and underserved non-metropolitan, middle-income areas.

Policy suggestions and ideas

- Continue to employ CRA as a useful requirement and one that increases access to financial capital.
- Consider applying CRA beyond banks and savings and loans to other financial entities – such as mortgage brokers and insurance companies – that are increasingly important sources of capital and financial services.
- Examine the enforcement provisions and penalties of CRA to ensure that the act has enough weight and impact to positively affect access to capital.

HUD housing programs and environmental problems

Background

Environmental problems affect many properties targeted for housing use in older core cities and close-in suburbs, but HUD policy as implemented by field offices and local housing authorities prohibits the use of HUD housing programs for properties that have or had environmental problems, even in cases where properties have been cleaned up to address those problems. This federal policy continues despite a wealth of examples where properties with environmental problems have been successfully returned to productive use as unsubsidized, market-rate housing.

Policy suggestions and ideas
Allow HUD housing programs to be used for properties where real or suspected environmental problems exist or where state-approved institutional or engineering controls have been used as part of a cleanup remedy for past environmental problems.

Housing Choice Voucher program

Background
HUD's Housing Choice Voucher program (formerly Section 8) offers a market-based approach to overcoming the problems of unaffordable rental housing and the concentration of assisted housing in largely poor and minority neighborhoods by allowing recipients to choose a house or apartment available in the private market and to contribute about 30 percent of their income toward rent, with a federal subsidy covering the rest. Low voucher amounts lead to the concentration of program participants in locations with low rents. To the extent that Housing Choice Voucher recipients are concentrated in limited geographic areas, as often is the case now, the program places strains on city and school resources because communities with high concentrations of voucher recipients must tackle the challenges associated with pockets of poverty. Communities also may face challenges in cases where irresponsible landlords fail to pay taxes or abuse the Housing Choice Voucher program; local housing agencies may find they cannot cancel program contracts with irresponsible landlords because of HUD program policies.

Policy suggestions and ideas
- Allow greater flexibility and control by local housing authorities when managing Housing Choice Vouchers in instances where landlords are delinquent in paying taxes or are abusing the housing assistance system.
- Adopt measures designed to encourage all municipalities to participate in the Housing Choice Voucher program, including perhaps links between federal funding for community development programs and measures that show communities are meeting basic thresholds for participation in the voucher program.
- Raise the fair market rent levels used to set voucher payments and raise them high enough so that their value will enable program participants to rent in a broader range of locations within a metropolitan area instead of just the sections where poverty is concentrated – but take this action in tandem with an increase in voucher funding because funding is tight and otherwise an increase in fair market rents would reduce the number of people served by the program.

Related legislative actions, proposals, and observations

While distinct from the Housing Choice Voucher program, the HOPE VI Revitalization and Demonstration Grants program aims to integrate public housing into the larger community and create housing environments that improve neighborhoods and help residents become self-sufficient. The HOPE VI program has succeeded in replacing severely distressed public housing with mixed-income communities. Sen Barbara Mikulski (D-MD) has introduced legislation to reauthorize Hope VI – S. 1513, co-sponsored by Sens. Christopher Bond (R-MO), Jack Reed (D-RI), Paul Sarbanes (D-MD), Arlen Spector (R-PA), Christopher Dodd (D-CT), Carl Levin (D-MI), Charles Schumer (D-NY), and others. Reauthorization has been proposed by Rep. Christopher Shays (R-CT) in the U.S. House. HOPE VI funds the demolition of severely distressed public housing; the acquisition of sites for off-site construction; the capital costs of major rehabilitation, construction, and other physical improvements; and community and supportive service programs for residents, including relocation. Funding for HOPE VI has been cut from more than $600 million to a level of $99 million in fiscal 2006.

A federal homeownership tax credit

Policy suggestions and ideas
Provide a federal homeownership tax credit to encourage the construction and rehabilitation of affordable housing or to assist low- and moderate-income people in the purchase of an affordable home.

Related legislative actions, proposals, and observations
President Bush in his fiscal 2005 and 2006 federal budget proposals sought creation of a federal tax credit for developers to increase the supply of single-family, affordable homes. Modeled after the federal government's Low Income Housing Tax Credit for rental housing, the Single Family Homeownership Tax Credit would have used state housing finance agencies to award tax credits of up to 50 percent to builders for construction or rehabilitation of affordable homes. Proposed for fiscal 2006 at $2.5 billion in tax credits over five years but not included in the president's fiscal 2007 budget plan, the program would have targeted low-income households earning less than 80 percent of an area's median income. The tax credit idea is seen as a useful way to offset developers' costs in cases where the cost to build or rehabilitate housing exceeds the appraised value of the completed home, or as a way to enable lenders to provide low-cost mortgages to qualified buyers. Others have proposed federal homeownership tax credits for buyers, rather than developers. Sen. Debbie Stabenow (D-MI) has proposed a First-Time Homebuyers' Tax Credit that would enable buyers with qualifying incomes to receive a one-time tax credit of up to $3,000 for singles and $6,000 for couples. A home buyer could sign the tax credit over to the lender at closing to help cover the down payment and closing costs. According to Harvard University's Joint Center for Housing Studies a tax credit for home buyers would help them purchase homes and contribute to broader neighborhood revitalization. While not aimed at a tax credit for homebuyers, Sen. Jack Reed (D-RI) has offered legislation to create a national affordable housing fund using contributions from Fannie Mae and Freddie Mac to finance grants for creative approaches to more affordable housing in communities nationwide. The proposed legislation also would provide workable goals to Fannie Mae and Freddie Mac regarding the purchase of loans to low-income homebuyers.

Federal program restrictions and targets (also addressed in Economic Development)

Background
Low-income households will be drawn to communities with low housing values because that is where they can find affordable housing. Government housing programs may further concentrate low-income residents in a community through requirements that the programs be of benefit to low- and moderate-income persons. Cities where low-income housing constitutes a disproportionate share of the housing stock may lack the tax base needed to support critical municipal infrastructure and services. According to Harvard University's Joint Center for Housing Studies, federal housing programs and tax credits have concentrated residents in high poverty neighborhoods where there is little access to good-quality schools and jobs.

Policy suggestions and ideas
- Use federal housing funds not only for low-income communities and affordable housing but also for rejuvenating older housing as a way to preserve community stability in core cities and close-in suburbs because preventing deterioration of neighborhoods is less costly than waiting

until they deteriorate and then trying to revive them. Additional federal housing funds likely would be needed if the scope of the programs were to be expanded in this way.

- Avoid using population size as a funding trigger for federal housing and community development programs because if funding is based on population size, then faster-growing, outlying areas will become the new entitlement communities, even though those areas do not face the challenges that the federal programs are meant to address.
- Establish program-relevant national housing and community development objectives, such as ensuring community stability, and use such objectives as eligibility criteria so that communities can carry out a wider range of projects, including, for example, the development of market rate housing to diversify the housing stock of at-risk neighborhoods and the upgrading of housing stock to meet modern housing standards.
- Allow program eligibility based on the median income of a municipality rather than the area median income of a broader metropolitan space.

Related legislative actions, proposals, and observations

New York lawmakers Sen. Hilary Clinton, Rep. Peter King, and Rep. Carolyn McCarthy have introduced legislation for Suburban Core Opportunity, Restoration, and Enhancement (SCORE), which would provide grants, economic incentives, and tax incentives designed to revitalize economically challenged older suburbs, create employment opportunities, develop housing, and expand business opportunities. The legislation would create a $250 million Reinvestment Fund and promote strategies that take advantage of existing infrastructure by assisting older suburbs with mixed-use development, affordable housing, transit-oriented development, brownfields remediation, and the integration of parks and open space.

Past federal programs and initiatives for policy ideas and models

Policy suggestions and ideas

- Revive the federal Urban Homesteading program, which years ago made foreclosed federal properties available for sale at a price of $1 to qualified purchasers. Requirements for qualified purchasers should address income level, owner/homesteader occupancy, and plans for renovation.
- Consider the now-defunct Urban Development Action Grant program as a possible model for a federal Neighborhood Development Action Grant program (NewDag) that would provide a pool of capital for neighborhood projects.
- Revive stand-alone vouchers for project-based, rental rehabilitations. At present, a share of HUD's Housing Choice Vouchers can be set aside for rental rehabilitations, but this arrangement reduces the number of existing vouchers available for housing, which would not be the case if separate vouchers were again issued for rental rehabilitation.

Water and Transportation Infrastructure

Challenges for Older Core Cities and Close-in Suburbs

The needs are great nationwide for construction, maintenance, and replacement of public infrastructure, especially in older core cities and close-in suburbs. These municipalities typically have older water and transportation infrastructure that requires maintenance and upgrades, but many older cities and suburbs with falling populations lack the local tax base and fiscal wherewithal to adequately fund needed infrastructure improvements. Water and transportation infrastructure are both costly and critical, constituting expensive but necessary factors for economic growth. Water and sewer systems are important both to commerce and to public health. Roads and transit enable transportation of the goods and people so vital to residential, commercial, and industrial development. Without adequate investment in infrastructure, older cities and close-in suburbs may experience more loss of population and business, as well as further declines in their viability and their tax bases.

Older cities and close-in suburbs with slow-growing or falling populations face a number of important challenges when it comes to water and transportation infrastructure, including the following.

Aging infrastructure: Older core cities and close-in suburbs often depend upon decades-old infrastructure. The age of the physical stock – roads, bridges, water and sewer pipes, and water treatment plants – creates significant needs for replacement and upgrades. In many cases, older metropolitan areas need to replace hundreds of millions of dollars worth of inadequate water and sewer systems and deteriorating roads and bridges.

Infrastructure design: The design of older infrastructure systems creates problems for cities. In the case of wastewater infrastructure, some older core cities and close-in suburbs still use systems plagued by combined sewer overflow (CSO) problems, leading to the discharge of untreated wastewater directly into streams and rivers when the combined demands of rainwater runoff, domestic sewage, and industrial wastewater – all traveling through the same pipes – overwhelm capacity. Some older systems also need to correct sanitary sewer overflows (SSOs), in which raw sewage destined for a publicly owned treatment facility is accidentally discharged into local waterways.

Government policies: Wealth-creating federal and state government investments in water and transportation infrastructure often tilt toward newly developed areas rather than older communities. By way of example, federal dollars may be used to cover from 80 to 90 percent of highway development costs, but the federal government’s project review process for new fixed-guideway transit systems has effectively required state and local governments to cover as much as 40 percent of project development costs, thus making new highways in outlying areas more attractive than rail transit in densely populated urban settings when it comes to federal share for project costs. What’s more, federal funding for infrastructure often comes through legislative earmarks for specific projects, sometimes putting a greater emphasis on political deal-making than local needs.

Fiscal constraints and lack of investment: Cities with falling populations and shrinking tax bases face fiscal constraints that hinder public-sector investment in infrastructure. Older core cities and close-in suburbs must make tough budget choices and tap limited revenue streams to address a range of high priority challenges, including police and fire protection, public health services, youth programs, and housing initiatives. Tight local budgets often lead to reduced investment in local water and transportation infrastructure, even though the deterioration of such infrastructure may prompt more declines in population and business activity and in turn reduce local revenues further over time.

Federal Policy Options and Opportunities

Overarching themes and issues

A number of overarching themes emerged from roundtable discussions about federal policy for water and transportation infrastructure in older core cities and close-in suburbs. Many of the specific policy suggestions and ideas listed below tie back to these macro-level themes. The themes include the following:

- Local or metropolitan entities should have greater control over decisions about construction, maintenance, and replacement of public infrastructure.
- Dedicated revenue streams provide stable funding sources for federal infrastructure programs, as demonstrated by use of the gas tax to finance the federal Highway Trust Fund.
- Older core cities and close-in suburbs would benefit from federal funding parity between transit programs and highway programs.
- Sensible infrastructure investment requires coordinated, region-wide planning.
- Federal funding for infrastructure programs should be restored in some cases and increased in others.

The Northeast-Midwest Institute gathered the following policy suggestions and ideas primarily from congressionally hosted roundtable discussion sessions and offers them as an important starting point for consideration of federal action to assist older cities and suburbs. These policy suggestions and ideas, however, do not represent a consensus of opinion on the part of roundtable participants, their congressional hosts, or the Northeast-Midwest Congressional and Senate Coalitions. Not every roundtable participant would endorse each of the policy suggestions included here, nor would every roundtable host or Coalition member.

Water Infrastructure

The Clean Water State Revolving Fund (CWSRF) for wastewater and water quality issues

Background

EPA's CWSRF program awards annual loan-fund capitalization grants to states that provide at least a 20-percent match. Grants typically fund no- or low-interest loans to public and private entities for state-determined, high-priority water quality projects. In 2005, the CWSRFs lent $4.6 billion in below-market loans for wastewater and other water quality projects. More than $48 billion has been borrowed over the life of the program. The federal government accounts for only a small percentage of the funds spent on clean water infrastructure, even though federal mandates require local action on wastewater issues, such as combined sewer overflows. In the past, the federal government offered clean water construction grants, but these were replaced by the loan funds in 1987 when the Clean Water Act was reauthorized. As for the issue of arbitrage relief, several states began leveraging their state revolving funds as a way to increase available financing after Congress cut federal dollars for CWSRFs from $1.35 billion to $1.1 billion in fiscal 2005, but federal arbitrage rules hinder those efforts. The rules force states to limit and pay rebates on earnings from those portions of the state revolving funds (SRFs) considered to be bond proceeds under the rules, thus reducing clean water funds available for communities. Yet by law, SRFs can be used only for financing water and wastewater facilities, and prompt lending is assured by oversight and U.S. EPA program audits, so the limits and rebate requirements might not be necessary.

Policy suggestions and ideas

- Increase federal funding of capitalization grants from EPA for CWSRFs in order to increase the pool of long-term financing available for construction of wastewater treatment facilities and other water quality management activities.
- Take legislative or administrative action to provide arbitrage relief for state revolving funds as a way to increase the dollars available for water infrastructure financing without additional federal appropriations.

Related legislative actions, proposals, and observations

Members of the Northeast-Midwest Congressional and Senate Coalitions have urged congressional appropriators to provide $1.35 billion for capitalization grants to states for CWSRFs in fiscal 2007. Congress provided $887 million for the CWSRF program in fiscal 2006. In addition, Sen. Jack Reed (D-RI), who co-chairs the Northeast-Midwest Senate Coalition, has proposed that the U.S. Treasury Department provide arbitrage relief for CWSRFs.

A federal clean water trust fund

Background

There has been interest among advocacy groups and some members of Congress in establishing a federal clean water trust fund as a way to provide new, stable, and secure funding to help cover the significant local costs of needed water infrastructure investment and upkeep. However the issue of revenue sources for the trust fund has hindered action on legislative proposals because of resistance to fees and taxes. No agreement has been reached on sources to tap for the revenue stream. Trust fund advocates have looked at several potential revenue sources, including a fee on water-based recreational products and services, industrial discharges, flushable products, and beverages; and a broad clean water restoration fee. Those revenue options are based on the assumption that the beneficiaries of clean water and the dischargers of pollutants should bear primary responsibility for the costs of clean water infrastructure.

Policy suggestions and ideas

Establish a federal clean water trust fund that uses a dedicated revenue stream to generate federal dollars for financing clean water infrastructure and initiatives, tapping as a model the federal government's trust fund approach to financing transportation infrastructure.

Related legislative actions, proposals, and observations

The Clean Water Trust Act (H.R. 4560), introduced by Rep. John J. Duncan (R-TN) in December 2005, would use dedicated funding to generate $7.5 billion a year for five years for clean water infrastructure and initiatives by local communities. The proposal includes, in part, annual funding of $1.5 billion in capitalization grants for CWSRFs, $4.5 billion for high-priority water infrastructure projects, $250 million for sewer overflow control, $295 million for research and technology, and $100 million for wetlands program grants.

The Drinking Water State Revolving Fund (DWSRF)

Background

Federal appropriations for capitalization of DWSRFs provide dollars for state loans to public water systems for infrastructure improvements and pollution prevention measures, such as transmission and distribution systems and water treatment facilities. From fiscal 1997 through fiscal 2004, Congress awarded states $5.7 billion in capitalization grants, which provided a total of $9.7 billion for loans when combined with the required state match, bond proceeds, loan repayments, and other dollars.

Policy suggestions and ideas
Increase federal EPA funding of capitalization grants for DWSRFs in order to increase the pool of long-term financing available for drinking water infrastructure.

Related legislative actions, proposals, and observations
Members of the Northeast-Midwest Senate Coalition have urged congressional appropriators to provide adequate funding for DWSRF capitalization grants to states in fiscal 2007. Congress provided $837 million for the DWSRF program in fiscal 2006.

Reauthorization of the Clean Water Act

Background
As summarized by the EPA, the objective of the Clean Water Act “is to restore and maintain the chemical, physical, and biological integrity of the nation's waters by preventing point and non-point pollution sources, providing assistance to publicly owned treatment works for the improvement of wastewater treatment, and maintaining the integrity of wetlands.” The act regulates the direct and indirect discharge of water pollutants. The measure established capitalization grants for CWSRFs and authorized many other federal clean water initiatives. Congress has discussed reauthorization of the Clean Water Act for a number of years but has not enacted new legislation, although a number of bills relating to water infrastructure financing were introduced. Congressional action has been complicated by issues involving proposed formula changes, Davis-Bacon wage provisions, wetlands, and non-point pollution sources.

Policy suggestions and ideas
Reauthorize the 1987 Clean Water Act, which is beneficial to local water infrastructure efforts.

Planning for water infrastructure

Background
Planning and analysis help local communities assess water infrastructure conditions and needs from the context of metropolitan revitalization and economic development. Without appropriate planning, accounting considerations alone may drive infrastructure decisions, said participants in the Cleveland roundtable discussion. Planning helps cities address complex and long-term issues, including water infrastructure needs and costs, comprehensive asset management, maintenance and replacement priorities, capital investment options, and risk assessment.

Policy suggestions and ideas
Make increased water infrastructure planning more likely among the local communities in a region.

Transportation Infrastructure

Local control over transportation funding and decisions

Background

Roundtable participants in Cleveland suggested that more federal transportation funds be issued to metropolitan planning organizations (MPOs) – except for funding of federal interstate highways – because MPOs are closer to the issues and therefore often better positioned to address them. Increased local authority over federal transportation dollars and decisions would streamline the process for infrastructure investment and improve the match between transportation initiatives and local needs. Cleveland participants suggested that federal highway funding go to local entities, notably MPOs, as block grants. The Washington-based Brookings Institution recently recommended that Congress devolve greater responsibility and resources for transportation infrastructure to metropolitan entities as a way to better integrate transportation decisions with local and regional planning. In the best of circumstances, metropolitan organizations could use transportation funding in tandem with land use, housing, workforce, and economic development efforts. MPOs currently receive U.S. Transportation Department planning grants to develop comprehensive, long-range plans and studies regarding the local transportation system, although engagement by MPOs in region-wide collaborative planning efforts for transportation action and broader issues remains an important but sometimes-difficult challenge. MPOs currently receive some federal funding for local transportation projects.

Policy suggestions and ideas

Shift greater decision-making and more federal funding for transportation infrastructure to MPOs in order to better align transportation initiatives with local needs and priorities, perhaps doing so through block grants to MPOs.

Federal funding for transit systems

Background

Transit stands out as an important element of the transportation infrastructure for many older core cities and close-in suburbs. While the federal government provides 80 percent of the funds needed for new highway projects (and up to 90 percent in some cases), it has discouraged federal funding for fixed-guideway and busway projects or expansions with federal match at levels above 60 percent, thus often tilting the state and local preference toward roads rather than transit. Furthermore the federal match only applies to the portions of a transit project funded jointly by federal, state, and local governments, and consequently the actual federal share of capital investment for transit initiatives – including portions not funded jointly – is even less (not quite 40 percent in fiscal 2003). In addition, older metropolitan areas with stagnant or declining populations are less likely than growing areas to experience traffic congestion problems, so an emphasis on congestion as a criteria or factor for transit funding puts many older core cities and close-in suburbs at a disadvantage. And older core communities often have existing transit systems and therefore need federal help not so much with new capital investments but with modernization and upkeep for older systems.

Policy suggestions and ideas

- Increase the actual federal share of funding for fixed-guideway and busway projects and expansions to the 80-percent level used for highway projects, instead of the 60-percent level commonly adopted.

- To better serve older cities and suburbs with declining populations, avoid transit funding formulas that emphasize traffic congestion.
- Structure federal transit programs and funding to recognize the need to renew older transit systems as well as build new ones.

Intermodal connectors

Background
Intermodal connectors link distinct modes of transportation, such as highways, rail lines, airports, and seaports.

Policy suggestions and ideas
Consider establishing a clear source of federal funding for intermodal connectors.

Overlapping Infrastructure Ideas

Coordination for federally supported road and water work

Background
Too often, older cities and suburbs receive federal funding to resurface or replace roads but not to replace water pipes beneath those roads, even if the water infrastructure is old and deteriorating. In such cases, roads are repaired or replaced only to then be torn up when repairs must be made to the water pipes. If cities are unable to coordinate work on roads and waterways, infrastructure costs increase as sections of new and repaired roads are destroyed and rebuilt again in order to fix water infrastructure problems. Communities would be more able to avoid this situation if federally funded road reconstruction work were matched with federal funds for water infrastructure work.

Policy suggestions and ideas
Create better coordination and planning for federally supported road and water infrastructure repairs in order to prevent instances where recently repaired or replaced roadways must be torn up to repair or replace the water pipes underneath them.

National center for infrastructure innovation

Background
Beyond the issue of funding for current infrastructure programs and approaches, the nation needs to explore and tap into innovation, efficiencies, and the power of nature to change how federal programs and local communities go about addressing infrastructure challenges, according to participants in the Cleveland roundtable session. In recent years, communities and regions have benefited from the innovative change in focus for pollution prevention and cleanup away from points along a watershed to water quality for watersheds as a whole. Similar advances could be realized if innovative approaches were developed and adopted for other infrastructure issues. A national center for infrastructure innovation would allow for research into new infrastructure approaches and lead to new policies for major challenges.

Policy suggestions and ideas
Establish a national center for infrastructure innovation and use it to carry out research into new innovative and cost-effective approaches to infrastructure issues.

Business and Economic Development

Challenges for Older Core Cities and Close-in Suburbs

Economic development depends upon the deployment of a region's building blocks – financial capital, labor, facilities and equipment, know-how, land, other physical resources, and public and private infrastructure. Those building blocks allow businesses to develop, survive, and thrive, spurring job growth, increasing incomes, raising property values, expanding the tax base, and generally improving the quality of life in the community. Stagnation or decline in a city's business base can lead to broader deterioration for the community and financial stress for the local government as it tries to meet demands for city services and infrastructure at a time when fiscal capacity is shrinking.

Older core cities and close-in suburbs with slow-growing or falling populations face a number of important challenges when it comes to business and economic development, including the following.

Economic infrastructure: Local economic development depends in part on public-sector actions that shape the economic environment for businesses through investments in transportation infrastructure, public safety, water and waste systems, public education, and quality-of-life amenities. Older communities with falling populations and shrinking tax bases face fiscal constraints that hinder public-sector investment in the economic infrastructure and consequently discourage business development.

Economic change and adjustment: Broad macroeconomic shifts and trends set the stage for economic decline or advancement in cities and regions. For older core cities and close-in suburbs, these shifts and trends may bring difficult periods of adjustment as economic activity moves away from industries and sectors that once formed the economic base. Economic adjustment may prove particularly challenging for cities that have depended upon manufacturing. For some older cities, their function may be moving from that of dominant employment centers for industry to places where people live and enjoy recreational opportunities.

Non-profits and non-taxables: Changes to the urban economic environment mean that universities, medical centers, and government facilities constitute key anchors for many older central cities. But while the education, health care, and government sectors offer important opportunities for job creation and economic innovation in core cities, their tax-exempt status limits the revenues that city governments can generate to pay for critical services and infrastructure investment.

Land constraints: Older communities often lack land for new development either because they are fully developed already, as is often the case for older suburbs, or past patterns of development and abandonment have left them with small and scattered parcels of available land or large tracks of contaminated property.

The strength of local demand: Local income and demand drive retail development and activity within a city. The retail sector in older cities and suburbs will suffer if the local population declines, if income levels are low, or if there are high concentrations of poverty. For low-income sections of older communities, retailers also may overlook the potential for sales because of real or perceived business risks and cost factors, even when local demand would support retail growth.

Government policies: Wealth-creating federal and state government investments in transportation and other infrastructure often tilt toward newly developed areas rather than older communities. In the case of older suburbs, federal government programs may overlook local needs entirely if the suburbs are not big enough or poor enough to qualify for federal assistance.

Federal Policy Options and Opportunities

Overarching themes and issues

A number of overarching themes emerged from roundtable discussions about federal policy for business and economic development in older core cities and close-in suburbs. Many of the specific policy suggestions and ideas listed below tie back to these macro-level themes. The themes include the following:

- The Community Development Block Grant program is very valuable to revitalization efforts and should not be changed in ways that would adversely affect older core cities and close-in suburbs.
- Older core cities and close-in suburbs need flexibility with regard to federal programs.
- Federal programs should work better for smaller projects.
- Federal program targets and requirements can complicate economic development efforts in older communities.
- Complexity and layering makes federal financing programs difficult to use for some projects.
- Federal funding for community and economic development programs should be restored in some cases and increased in others.

The Northeast-Midwest Institute gathered the following policy suggestions and ideas primarily from congressionally hosted roundtable discussion sessions and offers them as an important starting point for consideration of federal action to assist older cities and suburbs. These policy suggestions and ideas, however, do not represent a consensus of opinion on the part of roundtable participants, their congressional hosts, or the Northeast-Midwest Congressional and Senate Coalitions. Not every roundtable participant would endorse each of the policy suggestions included here, nor would every roundtable host or Coalition member.

CDBG and the Strengthening America's Communities Initiative (SACI)

Background

In its fiscal 2007 budget proposal, the Bush administration called for consolidation of and changes to federal community and economic programs under a new Strengthening America's Communities Initiative. The administration had provided few details of its plan as of spring 2006, except to indicate that it would significantly cut funding for CDBG and other programs, and that it would seek to consolidate programs within both the U.S. Department of Commerce and the Department of Housing and Urban Development. In a 2005 SACI plan, the Bush Administration proposed consolidating community and economic development programs across five different cabinet-level departments to create one block grant program more strictly targeted toward communities with high levels of job loss, unemployment, and poverty, as well as create a challenge fund bonus program for low-income communities that have taken steps to improve their economic conditions. The 2005 consolidation plan would have affected Community Development Block Grants, Economic Development Administration programs, Section 108 Loan Guarantees, and 15 other programs. Combined funding for the programs would have dropped 30 percent in fiscal 2006 under the 2005 SACI proposal, although federal funding for some other economic development programs would have risen somewhat. The CDBG program – by far the largest element of the SACI consolidation plan – is a popular program that funds infrastructure important to development and is critical to revitalization efforts in older core cities and close-in suburbs. The SACI proposal did not advance in Congress in 2005. In 2006, Federal officials reportedly are pursuing ways to implement elements of the SACI proposal through agency policy and procedures in light of congressional resistance to the plan.

Policy suggestions and ideas

- Reject the proposed consolidation of existing community and economic development programs as outlined in the SACI proposal.
- Continue to operate CDBG as a formula-driven program, and do not change it to a competitive grant program.
- Do not alter the existing CDBG funding formula, especially in ways that would adversely affect older core cities, close-in suburbs, and metropolitan areas with slow-growing or declining populations.
- Restore federal funding for the CDBG program.

Related legislative actions, proposals, and observations

Members of the Northeast-Midwest Congressional and Senate Coalitions in 2005 opposed the consolidation plans and funding cuts outlined in the SACI proposal. In 2006, Coalition members have urged appropriators to fund CDBG at $4.3 billion for fiscal 2007, up from the fiscal 2006 level of $3.7 billion.

Federal historic preservation tax credits (also addressed in Housing)

Background

Federal historic preservation tax credits, administered at the federal level by the National Park Service and the Internal Revenue Service, offer a 20-percent tax credit on private investment in the rehabilitation of income-producing historic properties, including offices, warehouses, factories, hotels, retail stores, and rental housing. In addition, a 10-percent credit is available for work on income-producing buildings constructed before 1936 but not designated as historic. Federal historic preservation tax credits for rehabilitation have been critical to development efforts in many older communities because older communities have older buildings that qualify for tax credits. Federal and state tax credits for historic preservation and rehabilitation are important to revitalization efforts that capitalize on a city's older architecture because the credits help bridge the gap between the cost of renovating an older structure and the cost of tearing it down to build new or of building in locations elsewhere.

Policy suggestions and ideas

- Make it workable to use the federal historic preservation tax credits with the federal Low Income Housing Tax Credit (LIHTC).
- Increase the value of the credit for small projects.
- Deepen the existing federal rehabilitation tax credit.
- Increase the tax incentives when they are used for projects in difficult-to-develop areas.

Related legislative actions, proposals, and observations

Reps. Phil English (R-PA) and William Jefferson (D-LA) have proposed the Community Restoration and Revitalization Act – co-sponsored by Rep. Stephanie Tubbs Jones (D-OH) and others – that would change the federal rehabilitation tax credit in a number of ways, including increasing the credit for projects in distressed areas, eliminating or reducing the basis calculations that adjust the credit value of eligible projects downward, allowing the credit to be paired with the federal Low-Income Housing Tax Credit for certain projects, increasing the credit from 20 to 40 percent for smaller projects of $2 million or less that fit with main-street-type development, and making housing that is owner-occupied and not income-producing eligible for the 10-percent credit now available for work on buildings built before 1936 but not designated as historic.

The Section 108 loan guarantee program

Background
The CDBG Section 108 loan guarantee program is a broad federal initiative of benefit to older communities, an important element of front-end financing for projects, and a driver of the patient capital that communities need for long-term projects. The Section 108 loan guarantee program allows block grant recipients to use their CDBG funding to federally guarantee loans for large-scale economic development and revitalization projects. The publicly funded loan guarantees help secure private-sector capital for projects in distressed areas. Local governments that borrow funds using Section 108 guarantees must pledge current and future CDBG dollars as security to cover the loan amount. For the Section 108 loan guarantee program and other federal financing initiatives, smaller projects are at a disadvantage because of required minimum program fees for legal and transaction costs, which may be too high to justify based on the potential payoff from smaller projects compared to larger ones.

Policy suggestions and ideas
- Make Section 108 Loan Guarantees – and other federal financing programs – easier to use for smaller projects, perhaps by providing funds to help cover the legal and transaction costs.
- Decouple U.S. HUD's Brownfield Economic Development Initiative from the Section 108 loan guarantee program.
- Increase federal funding for the Section 108 loan guarantee program.

Related legislative actions, proposals, and observations
The Brownfields Redevelopment Enhancement Act, introduced by Rep. Gary Miller (R-CA) in January 2005 and passed by the House in December 2005, would authorize HUD to make BEDI grants without requiring a companion Section 108 loan guarantee, which in practice opens the program up for use by small cities and Indian tribes. Members of the Senate have developed companion proposals. With regard to funding, the co-chairs of the Northeast-Midwest Congressional and Senate Coalitions in early 2006 urged the Bush administration to support $7 million for Section 108 loan guarantees in fiscal 2007 – a level $3 million higher than fiscal 2006 appropriations. Based on past program performance, $7 million in appropriations can support approximately $675 million in guarantee authority.

New Markets Tax Credits (NMTCs)

Background
Established in 2000, the NMTC program seeks to stimulate increased investment and economic growth in low-income communities, primarily by directing new business capital to low-income communities, encouraging investment in high-risk areas, and facilitating economic development in low-income communities. The program offers a federal tax credit of 39 percent over seven years for qualified equity investments made through community development entities (CDEs), which are certified for program participation by the U.S. Treasury Department's Community Development Financial Institution Fund. The CDFI Fund allocates NMTCs annually to CDEs through a competitive application process. CDEs use capital derived from the tax credits to make loans to or investments in businesses and projects in low-income communities. Applying for and deploying

NMTCs can be cumbersome, complex, and costly, in part because every deal is customized. Often community and economic development organizations are not certain if they qualify for NMTCs, so some end up applying in order to find out. In many cases, smaller entities have unsuccessfully competed for NMTC allocations, and some smaller entities have had difficulty deploying NMTCs when they have successfully applied for them. Clearer program guidelines and directives would likely reduce frustration among interested but marginally qualified development entities. More information about the program might encourage smaller development entities to work through existing CDEs on NMTC projects.

Policy suggestions and ideas

- Make it clear and known that the NMTC initiative is intended to involve larger and more sophisticated development entities in the tax credits and in development projects; too often, development entities not well-suited to the NMTC program unsuccessfully pursue independent participation in the program.
- Encourage the development of NMTC outreach materials and use them to inform cities and smaller development organizations about how they can work on NMTC deployment with qualified CDEs that have received allocations.

Related legislative actions, proposals, and observations

Senator Olympia Snowe (R-ME) has introduced the New Markets Tax Credit Reauthorization Act to extend the tax credit limitation amount of $3.5 million through calendar year 2012 and to adjust the dollar amount for inflation in tax years beginning with 2009. Co-sponsors include Sen. Susan Collins (R-ME), who co-chairs the Northeast-Midwest Senate Coalition, and Sens. Norm Coleman (R-MN), John Kerry (D-MA), and Joseph Lieberman (D-CT).

Small Business Administration (SBA) programs

Background

The SBA's Section 7(a) loan guarantee program and its Section 504 Certified Development Company program help small firms secure financing for business start-ups and expansions. For the 7(a) program, commercial lenders make and administer small business loans structured to meet SBA's requirements and for which they receive a guaranty from SBA. The lender and SBA share the risk that a borrower will not be able to repay the loan in full. The 7(a) program leaves responsibility for financing decisions to banks and other lenders rather than to SBA. The Section 504 program is a long-term financing tool for economic development that helps small businesses finance major fixed assets, such as land, buildings, and machinery or equipment. Nonprofit certified development companies work with SBA and private-sector lenders on the financing, and the junior liens from the certified development companies are backed by SBA-guaranteed debenture. SBA's Small Business Development Centers (SBDCs) are cooperative efforts by the private sector, educational institutions, and federal, state, and local governments to offer one-stop information, assistance, and guidance to individuals and small businesses through central and easily accessible branch locations. SBDCs offer important training and counseling for small businesses, including assistance from co-located Department of Defense Procurement Technical Assistance Centers. Under the MicroLoan Program, SBA makes funds available to nonprofit, community-based lenders, which in turn make very small loans to eligible borrowers for start-ups, newly established small businesses, or growing small businesses. The average loan size for the MicroLoan Program is about $11,000.

Policy suggestions and ideas

- Focus SBA's 7(a) loan guarantee program more on lending opportunities in older core cities and close-in suburbs – perhaps through program set-asides – because in practice the guarantees often go for loans to businesses in growing suburbs and outlying areas less in need of development incentives.

- Increase funds available for SBDC marketing efforts so that the centers can reach and serve more entrepreneurs and small businesses.
- Maintain and expand federal programs for micro lending as a way to help immigrants and others secure capital for business ventures, and also find better ways to market micro lending programs.

Economic Development Administration (EDA) programs

Background

EDA's Public Works and Development Facilities program provides grants to state and local governments and other public and private entities to help them attract resources from the public and private sectors for investments in roads, water and sewer facilities, and other infrastructure initiatives that promote economic development and serve industry and commerce. EDA's Economic Adjustment program helps state and local governments respond to sudden and severe economic dislocation or long-term economic deterioration, and it encourages them to design and implement adjustment and redevelopment strategies that will strengthen their economic base. EDA's grants to support planning organizations aim to strengthen economic development planning capacity and help communities formulate and establish comprehensive economic development strategies designed to reduce unemployment and increase incomes. The agency's technical assistance grants finance feasibility studies and other projects leading to local economic development in depressed areas. EDA also offers Trade Adjustment Assistance grants to help firms and industries adversely affected by increased imports.

Policy suggestions and ideas

For EDA programs, consider additional criteria for program participation that reflect the needs of core cities and close-in suburbs because current criteria and limited program funding make it difficult for many older communities to tap into this important source of assistance when engaging in infrastructure and development efforts.

Community Reinvestment Act (CRA) (also addressed in Housing)

Background

The CRA requires federal regulators to evaluate how well federally insured financial institutions meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Provisions apply to banks and savings and loans. Federal regulators take the CRA track record into consideration when reviewing applications for mergers, acquisitions, and branch openings. The law helps expand home lending, prevent red-lining, and increase financing for housing and economic development in core cities and older suburbs, and elsewhere. CRA provisions apply to banks and thrifts. Recently instituted changes to CRA expanded the small-bank category to create a class of intermediate small banks in order to reduce the regulatory burdens on banks with assets of $250 million to $1 billion. The changes also expanded the definition of community development to include activities in designated disaster areas and in distressed and underserved non-metropolitan, middle-income areas.

Policy suggestions and ideas

- Continue to employ CRA as a useful requirement and one that increases access to financial capital.

- Consider applying CRA beyond banks and savings and loans to other financial entities – such as mortgage brokers and insurance companies – that are increasingly important sources of capital and financial services.
- Examine the enforcement provisions and penalties of CRA to ensure that the act has enough weight and impact to positively affected access to capital.

Federal program restrictions and targets (also addressed in Housing)

Background

Some federal programs designed to encourage business and economic development – notably the Community Development Block Grant program – generally restrict local governments to using grants for projects that assist low- and moderate-income persons or target low-income areas or pockets of blight, making it difficult for municipalities to tap those programs for higher-end redevelopment efforts or for initiatives designed to prevent economic deterioration before it occurs.

Policy suggestions and ideas

Increase the flexibility of federal development programs so that they can be used for initiatives in areas with higher incomes and less blight, including close-in suburbs, and perhaps target this broader latitude to older core cities and close-in suburbs that have higher overall levels of poverty, unemployment, and blight. Higher-end development initiatives can yield significant benefits for the broader community and for low- and moderate-income persons, especially to the extent that they prevent economic deterioration before it occurs. Additional federal funds likely would be needed if the scope of the development programs were to be expanded in this way.

Related legislative actions, proposals, and observations

New York lawmakers Sen. Hilary Clinton, Rep. Peter King, and Rep. Carolyn McCarthy have introduced legislation for Suburban Core Opportunity, Restoration, and Enhancement (SCORE), which would provide grants, economic incentives, and tax incentives designed to revitalize economically challenged older suburbs, create employment opportunities, develop housing, and expand business opportunities. The legislation would create a $250 million Reinvestment Fund and promote strategies that take advantage of existing infrastructure by assisting older suburbs with mixed-use development, affordable housing, transit-oriented development, brownfields remediation, and the integration of parks and open space.

Policy suggestions and ideas

- Make clear and known that the NMTC initiative is intended to involve larger, more sophisticated development entities in projects at hard-to-develop locations because too often, at present, development entities not well-suited to the NMTC program spend time unsuccessfully applying for allocations of the credits.
- Encourage the development of NMTC outreach materials and use them to inform cities and smaller development organizations about how they can work on NMTC deployment with qualified CDEs that have received allocations.

Investment in infrastructure

Background

The public sector has an important and positive role to play in economic development through its investment in and regulation of such infrastructure items as roads and transit, airports, water and waste systems, public safety, energy generation and transmission, and communications networks. For this reason, such federal measures as the SAFETEA-LU surface transportation act and the Clean Water Act have a major impact on the vitality of the nation's cities. Research has shown that public investment in education and infrastructure is positively related to local business activity and growth, although it is difficult to determine if those public investments drove the growth or were, in fact, driven by it. Infrastructure also contributes to a region's quality of life, which stands out as an increasingly important factor in the economic vibrancy of metro areas. And public officials cite infrastructure improvement as one of the most commonly used economic development tools. However infrastructure investment must be grounded in a realistic assessment of opportunities for growth and development and not pursued as an end in itself.

Policy suggestions and ideas
Recognize federal investment in infrastructure as a key element of business and economic development efforts in older core cities and close-in suburbs. Local infrastructure shapes the development environment of communities, and federal funding is needed to support infrastructure upkeep and development in older communities with declining populations.

Securitization of economic development loans for sale in secondary markets

Background
It has been proposed that loans, leases, and other illiquid financial assets from community economic development lenders be packaged for sale to investors in the secondary market. Such sales would remove the transactions from the books of the community economic development lenders and recapitalize them, thus providing an infusion of financial capital. According to a report from the Government Accountability Office, the securitization of community economic development assets faces a number of barriers at present, including a lack of standardization, limited lender capacity, and no established mechanism for information sharing and securitization of such assets. Federal action might help.

Policy suggestions and ideas
Establish the mechanisms and legal environment necessary to allow community and economic development loans to be bundled and packaged for sale in the secondary financial markets as a way to make dollars available again for re-lending.

Industrial Development Bonds (IDBs)

Background
The federal government allows tax-exempt IDBs for manufacturers to be issued by state and local governments and quasi-public agencies for plant construction, plant improvements, and equipment acquisition. The tax exemption makes the bonds more attractive for investors. Issuing jurisdictions are subject to a volume cap on IDBs, and bond limit for a single project will rise to $20 million in 2009. Before they became targeted solely to manufacturing, IDBs were often used for retail development and projects in outlying areas that would likely have occurred without the IDB incentive.

Policy suggestions and ideas
Consider expanding the use of IDBs beyond manufacturing to commercial development but limit the expansion to commercial projects for infill, brownfield redevelopment, or mixed commercial-industrial use, and then only when projects are pursued on previously developed sites. Structured in this way, the proposed change might avoid past abuses whereby IDBs were applied to retail development that would have occurred in new suburban areas without the IDB subsidy, and the change would encourage the use of IDBs for projects in older core cities and close-in suburbs.

Workforce education and training

Background

The U.S. Labor Department offers programs designed to impart new, transferable skills to people and improve the productivity of business. Federal initiatives include the Workforce Investment Act's (WIA's) Adult Training, Dislocated Worker, and Youth programs, as well as the state-administered national Employment Service for unemployed workers. Many of the WIA services involve no education and training interventions or only limited ones and consequently are inadequate for assisting persons who lack basic skills, including English. Performance measures drive WIA service providers to focus on people who have the potential to quickly find work and increase their incomes, and therefore the program underserves people with low skill levels who require significant education and training.

Policy suggestions and ideas

- Emphasize education as a key strategy for increasing the employability of long-term unemployed persons and dislocated workers.
- Modify the performance measures used for WIA to focus more on education and skills, rather than increases in current income. The focus on current income as a performance measure limits the ability of the program to adequately serve people most in need of significant education and training.
- Move WIA away from a focus on the General Educational Development (GED) test because the GED is not equivalent to a high school degree and does not insure success in the job market. One alternative to the GED might be Equipped for the Future, a National standards-based educational improvement initiative for adult basic education and English language learning.

Energy

Challenges for Older Core Cities and Close-in Suburbs

Reliable, affordable energy is critical to the economic well-being of cities and regions. Energy is fundamental to powering commercial businesses, retail establishments, manufacturing plants, transportation, and everyday life. Energy prices affect profit margins and influence business location decisions. High energy expenditures reduce the money that consumers and businesses spend on other purchases and, within the dynamics of the local economy, generally pull dollars out of communities for payments elsewhere to energy producers or retailers. As stated in a report from U.S. Department of Housing and Urban Development, "City and county leaders across the U.S. often fail to realize that the dollars being spent on energy by their residents, businesses, and industries drain their local economies and would be better spent on public works, consumers goods, industrial site development, and new plants and machinery. These are dollar expenditures that keep an economy strong and vital."

Older core cities and close-in suburbs with slow-growing or falling populations face a number of important challenges when it comes to energy issues, including the following.

Supply and demand: At the present rates of change, demand for energy globally and in the United States is growing faster than the capacity to supply it. As a result, some markets, such as oil and natural gas, are experiencing rapid price increases and volatility, and other markets, such as electricity, are experiencing reliability problems. If current trends hold, the federal Energy Information Administration estimates that U.S. energy demand could increase by 30 percent over the next 20 years. If supplies, both nationally and globally, do not keep pace with demand, energy prices could rise sharply. The potential impacts of rapid increases in demand for energy and slow growth in supply threaten to hinder local economies, especially among older core cities and close-in suburbs already confronting economic challenges and constraints.

Improved energy efficiency: Efficiency is the cheapest energy source. Current patterns of energy use involve significant waste. Improved energy efficiency can lower costs for businesses and residents and reduce the flow of dollars out of the local economy. Improvements in efficiency for electricity generation hold great potential for savings because the average efficiency of electrical generators has not significantly increased since the 1950s. Energy efficiency measures offer high potential payoffs for older core cities and close-in suburbs because many houses, buildings, and facilities in those locations were constructed before much attention was paid to energy consumption and costs.

Electricity industry changes and restructuring: The U.S. electricity grid is "the supreme engineering achievement of the 20th century," according to a study by the National Academy of Sciences. But the U.S. power system is old, and it is becoming increasingly difficult for the system as now structured to meet the needs of the U.S. economy. The federal government has removed some regulatory barriers to electricity generation and distribution as a way to foster change through increased competition. Independent operators now provide the bulk of new power generation. For older cities and suburbs already struggling to compete in the global marketplace, the potential for change, competition, and innovation in the electricity industry holds promise for reducing local cost factors and improving economic circumstances. Moreover, technologies increasingly require power quality beyond what the existing grid can ensure. Many distributed energy generation technologies can dramatically improve power quality, which for some businesses is more important than the cost of power.

Energy costs and their impact: Energy costs run higher than average in some older metro areas, particularly in the northeastern region of the country. Because the Northeast generally imports energy fuels and much of its energy, the higher costs drain more dollars from older core cities and close-in suburbs, and the municipal governments in high-cost areas must spend a disproportionate share of their budgets on energy, leaving less funding available for public services and schools.

Federal Policy Options and Opportunities

Overarching themes and issues

A number of overarching themes emerged from roundtable discussions about federal energy policy and its impact on older core cities and close-in suburbs. Many of the specific policy suggestions and ideas listed below tie back to these macro-level themes. The themes include the following:

- Older core cities and close-in suburbs face energy efficiency challenges stemming from the age of their buildings, homes, and the energy infrastructure.
- New and emerging technologies hold promise for reducing energy use and costs.
- Federal incentives for energy efficiency, renewable fuels, and recycled or co-generated energy should be stable over time in order to influence decisions by businesses and consumers.
- Federal and state initiatives should remove the market barriers to energy recycling, cogeneration, and other innovative technologies.
- Regional coordination is important to the electricity infrastructure and electricity market.
- State – as well as federal – policies and regulations drive many important decisions about energy generation and infrastructure.

The Northeast-Midwest Institute gathered the following policy suggestions and ideas from congressionally hosted roundtable discussion sessions and energy policy experts, and the Institute offers them as an important starting point for consideration of federal action to assist older cities and suburbs. These policy suggestions and ideas, however, do not represent a consensus of opinion on the part of roundtable participants, their congressional hosts, or the Northeast-Midwest Congressional and Senate Coalitions. Not every roundtable participant would endorse each of the policy suggestions included here, nor would every roundtable host or Coalition member.

Innovation in electricity generation

Background

Energy innovators face significant barriers, including cost structures that discourage them from generating power, restrictions on their access to the power grid, prohibitions against the stringing of independent power wires, and obsolete or prohibitively expensive interconnection standards and metering requirements. These impediments discourage competition, as well as the technological and structural changes that flow from competition. Many of the barriers are imposed at the state and local level.

Policy suggestions and ideas
Eliminate barriers to innovative energy technologies and entrepreneurs, including regulations and practices that block or discourage energy innovators from generating their own power, connecting to the power grid, and selling surplus electricity.

Investment in innovative electricity technologies

Background
Technological advances and new approaches to power generation have the potential to spur dramatic innovation and change in the energy industry. Technological advances could significantly increase the efficiency of the electric system, expand consumer choices, increase productivity, and cut pollution. Regulations, policies, and industry practices, however, often create barriers to innovation in the electricity industry.

Policy suggestions and ideas
Change policies that discourage investment in new, efficient generation equipment and encourage the use of outdated plants and technology. The introduction of new plants and equipment is hindered by current policies, including the use of air emissions standards based on fuel inputs rather than energy outputs; long depreciation schedules for electricity-generating equipment; regulatory structures that favor large and expensive power plants; and exemptions to pollution-control regulations that allow older, inefficient, and less-innovative power plants to emit more pollution than newer facilities.

Energy efficiency

Background
The U.S. Department of Energy houses a range of federal energy efficiency programs focused on industrial technologies, building technologies, weatherization assistance, state energy conservation efforts, federal energy use, and vehicle technologies. While funding has increased for some energy efficiency programs, overall funding for federal energy efficiency programs has declined by about 10 percent since fiscal 2002. Based on provisions of the 2005 Energy Policy Act, the federal government also offers energy efficiency tax credits to businesses and consumers for the purchase and installation of energy efficient appliances and products, and for the construction of new energy efficient buildings. However, Congress chose to reduce the life of these tax incentives before passing its final version of the energy bill, so, for example, newly constructed commercial buildings must be in service by Dec. 31, 2007 in order to qualify – a short time frame for new real estate projects. As for clean energy resource standards, 12 states have established renewable portfolio standards that require the state to generate a percentage of its electricity from renewable sources, such as wind, biomass, geothermal, and others. In only three states do the renewable portfolio standards include energy efficiency. Expanding these state standards to capture energy efficiency opportunities would enlist the power of utilities in implementing cost-effective approaches to electricity generation.

Policy suggestions and ideas
- Support federal programs and initiatives that promote energy efficiency, provide research and development for new technologies, and push the federal government to lead by example in adopting energy efficient technologies and approaches.
- Expand the federal tax credits and incentives for energy efficiency that were established in the 2005 Energy Policy Act.
- Establish a national clean energy resource standard that encourages or requires states to change existing renewable portfolio standards to include energy efficiency from combined heat

and power, waste heat recovery and recycled energy, and end-use energy efficiency, or in cases where states lack standards to encourage or require states to institute them.

Related legislative actions, proposals, and observations
With regard to federal programs, members of the Northeast-Midwest Congressional and Senate Coalitions have called upon congressional appropriators to provide solid fiscal 2007 funding for key energy efficiency programs at the U.S. Department of Energy, including the Weatherization Assistance Program (WAP), the State Energy Program, energy efficiency deployment programs, the Equipment Standards and Analysis Program, the Federal Energy Management Program, the Industrial Technologies Program, and the Distributed Energy Program. For energy efficiency deployment programs, the Coalitions cited Rebuild America, Clean Cities, Building Codes Training and Assistance, Inventions and Innovations, Energy Star, and the Energy Efficiency Public Information Initiative.

Regional transmission coordination

Background
Energy transmission is a regional issue, as evidenced by the 2003 blackout that affected much of the Northeast and Midwest. In a 1999 order, the Federal Energy Regulatory Commission (FERC) identified competition in the wholesale electricity markets as "the best way to protect the public interest and ensure that electricity consumers pay the lowest possible price for reliable service." FERC found that traditional approaches to grid management were inadequate to support efficiency and reliability, and it concluded that regional transmission organizations (RTOs) could "1) improve efficiencies in transmission grid management; 2) improve grid reliability; 3) remove remaining opportunities for discriminatory transmission practices; 4) improve market performance; and 5) facilitate lighter-handed regulation." An independent federal agency that oversees and regulates energy industries, FERC is promoting the voluntary formation of RTOs, including independent system operators, "to promote efficiency in wholesale electricity markets and the lowest price possible for reliable service." Some federal lawmakers, however, seek to restrict regional coordination and discourage the wholesale exchange of electricity.

Policy suggestions and ideas
Emphasize and encourage regional transmission coordination as a way to address concerns about efficiency in wholesale electricity markets and the adequacy of electric power transmission facilities and lines. FERC actively encourages independent RTOs as a strategy for regional coordination.

Incentives for renewable energy and co-generation

Background
Federal incentives help make feasible new energy fuels and approaches. In order to partially balance the numerous subsidies for traditional fuels, the federal government has offered incentives to encourage the use of wind, solar, and other renewable energy sources. Federal incentives could help expand the use of distributed energy systems, which recycle waste heat and other energy and in this way put it to productive use for heating and cooling. Already the Energy Policy Act of 2005 includes provisions that authorize federal efforts for distributed energy research, development, demonstration, and support. Some federal incentives for renewable energy sources have changed, making it difficult for producers and consumers to rely on them, as was the case when the federal government instituted incentives for wind energy, then eliminated them, and then restored them.

Policy suggestions and ideas

- Provide suitable federal incentives for renewable fuels and for innovative and efficient power generation, notably distributed energy technologies and systems that efficiently recycle waste heat, store energy, and produce electricity at the point of use.
- Keep federal incentives stable over time so that producers and consumers can factor them in to their longer-range decision making.

Related legislative actions, proposals, and observations

Congress and the president have proposed tax credits for investments in combined heat and power (CHP), although the credits have not been adopted. The Senate version of the 2005 energy bill included tax credits for CHP property of up to 50 megawatts in capacity and including waste-heat recapture technologies, but the final Energy Policy Act of 2005 did not include this provision. A version of the CHP tax credit passed both houses of Congress in 2004 and was included in the conference report that eventually failed to pass Congress that year. President Bush included a CHP tax credit in his fiscal 2005 budget proposal but not in his subsequent budget plans for Congress.

Public benefit funds

Background

Two dozen states have created public benefit funds (PBFs) to provide a guaranteed funding stream for energy efficiency, renewable energy, energy assistance, and research and development. Most states fund PBFs through a surcharge on electricity bills, dubbed a “wires charge.

Policy suggestions and ideas

Find ways to align the immediate costs of shifting to new fuels, technologies, and generation strategies with the future benefits that will occur from those changes. One way would be to establish a federal PBF to match state PBFs and to encourage the creation of more state PBF programs.

Appendix A: Notable Federal Involvement in Critical Policy Issues for Older Core Cities and Close-in Suburbs

Brownfields and Vacant Properties

Grants

- The **Community Development Block Grant** program of the U.S. Department of Housing and Urban Development provides annual federal funding to cities, urban counties, and states for a wide range of activities focused on economic opportunity, development, neighborhood revitalization, and housing. Not less than 70 percent of CDBG funds must be used for activities that benefit low- and moderate-income persons, and other CDBG activities must prevent or eliminate slums or blight or address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to health or welfare. A jurisdiction may temporarily tap its CDBG account to provide short-term, fixed-rate gap financing for business projects that create or retain jobs for low and moderate-income people. Cities and towns of all sizes have used the CDBG program for vacant property redevelopment and for brownfield purposes, including preparing plans, acquiring sites, carrying out environmental site assessment, preparing sites, cleaning and clearing sites, and demolishing and removing buildings.
- HUD's **Brownfield Economic Development Initiative** grants provide additional security to recipients of Section 108 guaranteed loans (see description below under "Loans") and also provide additional financial assistance for aspects of the development projects that use those loans. HUD awards BEDI funds annually on a competitive basis. BEDI grants may be used to pay a portion of the project's cleanup or development costs, thereby reducing overall financial liability, or they may be used as a loan-loss reserve or debt reserve. In practice, the law mostly limits BEDI availability to CDBG entitlement cities with the capacity to secure a required companion Section 108 loan guarantee.
- EPA **site assessment grants** from the U.S. Environmental Protection Agency (EPA) typically provide up to $200,000 each to local governments, states, tribes, and such entities as redevelopment agencies, regional councils, and land clearance agencies to fund a variety of pre-cleanup activities needed to spark redevelopment for brownfields. Primary activities include site assessment, identification, characterization, and response; cleanup planning and design; and community outreach for education and planning.
- EPA **cleanup grants** typically provide up to $200,000 each to fund cleanup at brownfield sites owned by the recipient of a grant. A 20-percent match is required. Eligible recipients include non-profit organizations, as well as the governments and entities eligible for site assessment grants.
- The **Title I (public works) program** of the U.S. Commerce Department's Economic Development Agency provides grants to state and local governments, Indian tribes, and public and private nonprofit organizations to help distressed communities attract resources for economic development. The program has helped fund roads, water and sewer facilities, port improvements, and other infrastructure enhancements that serve industry and commerce, and it can be key to brownfield or vacant property reuse. EDA reauthorization legislation from 2004

specifically mentioned brownfield cleanup as an eligible program activity when cleanup is needed for a project.

- EDA's **Title IX (economic adjustment) grants** help states and local governments that are experiencing sudden and severe economic dislocation or long-term economic deterioration to design and implement adjustment and redevelopment strategies that will strengthen the base of their economies. EDA has traditionally targeted the redevelopment of brownfields as a necessary and vital component in fulfilling the program's objectives.
- The **HOME Investment Partnership program** and the **HOPE VI program for revitalization of distressed public housing**, both from HUD, have been used to address vacant property problems or prevent them. HOME allocates federal funds by formula to state and local governments for grants and low-interest loans to finance the acquisition, construction, and rehabilitation of rental housing. HOPE VI dollars may be used to redevelop or rehabilitate obsolete or vacant public housing sites with the goal of integrating public housing into the larger community and creating housing environments that help residents become self-sufficient.

Loan programs

- EPA-capitalized **Brownfield Cleanup Revolving Loan Funds** can be used by local governments, states, and tribes, as well as such entities as redevelopment agencies, regional councils, and land clearance agencies to make no- or low-interest loans for cleanup. Recipients can use up to 40 percent of their capitalization award to make cleanup sub-grants available for sites owned by the sub-grantees. A 20 percent match is required.
- EDA's **Title IX program** provides states and local governments with capital for local revolving loan funds to address long-term economic deterioration of the local economic base, and it provides them with capital used to establish or recapitalize locally managed revolving loan funds that support business development and overcome specific capital markets gaps. EDA's participation in revolving loan funds has been especially effective at retaining small companies in distressed areas, and it can play a prominent role in helping companies set up or maintain operations at brownfield sites. In fact, some recipients of EDA Title IX dollars have targeted their revolving loan funds toward brownfield projects.
- The **Section 108 loan guarantee program** allows CDBG entitlement communities – as well as small cities through CDBG state programs – to leverage their block grant funding for federally guaranteed loans for large-scale economic development and revitalization projects. The publicly funded loan guarantees help secure private-sector capital for projects in distressed areas. Local governments that borrow funds using Section 108 guarantees must pledge current and future CDBG dollars to cover the loan amount as security. The loan guarantee program is used to finance a range of development activities, including the removal of toxic contaminants.
- EPA-capitalized **Clean Water State Revolving Loan Funds**, run by individual states, can be used by states for loans of up to 20 years to finance activities – including brownfield mitigation – that correct or prevent water quality problems and have a revenue stream for loan repayment. A 20-percent match is required.

Tax incentives and tax-exempt financing

- **Section 198 brownfield expensing** is the only brownfield incentive program targeted to private site owners, and it allows them to recover brownfield costs in the year they are incurred rather than over the life of the property. Site owners can use expensing for cleanup costs and related spending on site assessment, ongoing monitoring, institutional or engineering controls, and state cleanup program fees. First authorized by Congress in 1997, the measure was set to expire at the end of 2005, but Congress extended it to December 31, 2006 in most cases.

- **Historic Rehabilitation Tax Credits**, administered at the federal level by the National Park Service and the Internal Revenue Service, offer a 20-percent tax credit on private investment in the rehabilitation of income-producing historic properties, including offices, warehouses, factories, hotels, retail stores, and housing, although only income-producing housing properties because the tax credits are restricted to depreciable properties. In addition, a 10-percent credit is available for work on income-producing buildings constructed before 1936 but not designated as historic. These tax credits have been used to encourage rehabilitation of vacant properties.
- The **Low Income Housing Tax Credit** allots $1.75 per capita in federal tax credits to states for use by private housing developers, who in order to use the tax credits must for 30 or 15 years set aside 20 to 40 percent of a project's housing as rent-restricted units occupied by low-income residents. They have successfully been used in many states as part of mixed-income housing developments, sometimes as infill projects.

Housing

Grants and vouchers for affordable housing

- The **Housing Choice Voucher Program** (formerly Section 8) offers a market-based approach to the problem of unaffordable rental housing and the concentration of assisted housing in largely poor and minority neighborhoods by allowing recipients to choose a house or apartment available in the private market and contribute about 30 percent of their income toward rent, with a federal subsidy covering the rest within the limits of federally determined fair market rents.
- **Community Development Block Grants** provide annual federal funding on a formula basis to cities, urban counties, and states for housing and a wide range of other activities aimed at revitalizing neighborhoods, promoting economic development, and improving community facilities and services. Not less than 70 percent of CDBG funds must be used for activities that benefit low- and moderate-income persons, and other CDBG activities must prevent or eliminate slums or blight or address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to health or welfare. **CDBG's Section 108 loan guarantee** provision provides a source of financing for housing rehabilitation, economic development, and large-scale physical development projects.
- The block grants of the **HOME Investment Partnerships Program** allocate federal funds by formula to state and local governments to create affordable housing for low-income households. Participating jurisdictions have considerable flexibility with regard to how they use the federal funds. Using federal allocations of about $2 billion per year, the U.S. Department of Housing and Urban Development establishes lines of credit for state and local government, which draw upon them to finance grants, direct loans, loan guarantees and other forms of credit enhancement, rental assistance, and security deposits.
- The **HOPE VI program for revitalization of distressed public housing** aims to integrate public housing into the larger community and create housing environments that improve neighborhoods and help residents become self-sufficient. HOPE VI funds the demolition of severely distressed public housing; the acquisition of sites for off-site construction; the capital costs of major rehabilitation, construction, and other physical improvements; and community and supportive service programs for residents, including relocated residents.

Federal tax credits, deductions, exemptions, and financing

- The **Low Income Housing Tax Credit** allots $1.75 per capita in federal tax credits to states for use by private housing developers, who in order to use the tax credits must for 30 or 15 years

set aside 20 to 40 percent of a project's housing as rent-restricted units occupied by low-income residents.

- **Federal mortgage insurance and guarantees** increase the willingness of lenders to make home loans on favorable terms to borrowers they otherwise might be reluctant to serve. The Federal Housing Administration (FHA) insures privately issued mortgages, with the borrowers paying the insurance premiums. The Veterans Administration (VA) guarantees privately issued mortgages for veterans and active duty military personnel, again with the borrowers paying a fee to cover the program costs.
- **Federal government involvement in the secondary mortgage market** has increased the financial capital available for home lending. Ginnie Mae, Fannie Mae, and Freddie Mac are the primary vehicles for federal action in the secondary markets. Ginnie Mae is a federal corporation that guarantees privately issued securities backed by FHA-insured and VA-guaranteed home loans, as well as loans guaranteed by the Farmers Home Administration. Fannie Mae is a privately owned but federally chartered entity that purchases loans from mortgage bankers and other lenders. Freddie Mac – also privately owned but federally chartered – purchases and sells mortgage loans made by federally insured savings and loans.
- The federal government allows state and local governments to issue tax-exempt **mortgage revenue bonds** (MRBs) and multifamily housing bonds, and they then use the bond proceeds to finance low-cost mortgages for first-time home buyers with low incomes or for the construction of affordable apartments for lower-income families. MRBs are a main source of revenue for state housing finance agencies.
- Home owners may **deduct mortgage interest from federal income taxes,** which provides them with an incentive to invest in home purchases and in this way encourages homeownership. The benefits of this tax deduction flow primarily to middle- and upper-income home owners both because low-income home owners are less likely to itemize deductions and claim the interest deduction and because the deduction is worth more to taxpayers with higher incomes. According to research by the Joint Center for Housing Studies, higher-income, suburban taxpayers disproportionately benefit from the deduction for mortgage interest.

Incentives for and regulation of financial institutions

- The **Community Reinvestment Act** requires federal regulators to evaluate how well federally insured financial institutions meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Federal regulators take the CRA track record into consideration when reviewing applications for mergers, acquisitions, and branch openings. The law helps expand home lending, prevent red-lining, and increase financing for housing and economic development in core cities and older suburbs, and elsewhere. CRA provisions apply to banks and thrifts, although increasingly home loans are made by non-bank institutions.
- The **Community Development Financial Institutions Fund** increases the availability of credit, investment capital, and financial services in distressed urban and rural communities. The fund stimulates the creation and expansion of CDFIs that serve challenged communities and low-income individuals and offers incentives to traditional banks and thrifts for investment, lending, and services in distressed areas, including financial activities in support of housing development and renovation.

Water and Transportation Infrastructure

Water and sewer infrastructure

- EPA's **Clean Water State Revolving Loan Fund**, funded by Congress at $900 million for fiscal 2006, awards annual loan-fund capitalization grants solely to states that provide at least a 20-percent match. Grants typically fund no- or low-interest loans to public and private entities for state-determined priority water quality projects. In 2004, communities borrowed $4.6 billion in below-market loans from CWSRFs. More than $48 billion has been borrowed over the life of the program.
- EPA's **Drinking Water State Revolving Loan Fund**, funded at $850 million for fiscal 2006, provides dollars for state loans to public water systems for infrastructure improvements and pollution prevention measures, such as transmission and distribution systems and water-treatment facilities. From fiscal 1997 through fiscal 2004, Congress awarded states $5.7 billion in capitalization grants, which provided a total of $9.7 billion for loans when combined with the required state match, bond proceeds, loan repayments, and other dollars.

Highway funds

- The **Interstate Maintenance** (IM) program provides funds for resurfacing, restoring, rehabilitating, and reconstructing the interstate highway system. The federal surface transportation act, called SAFETEA-LU, authorizes $25.2 billion for IM through fiscal 2009, to be distributed by formula based on each state's Interstate lane miles, vehicle miles traveled on those routes, and commercial vehicle contributions to the Highway Account of the Highway Trust Fund.
- The **National Highway System** (NHS) program offers funds to improve the system's rural and urban roads, including the interstate system and major intermodal terminal connections. SAFETEA-LU funds NHS at $30.5 billion through 2009.
- The **Surface Transportation Program** (STP) provides flexible funds for projects on any federal-aid highway, including NHS projects, bridge projects, transit capital projects, and bus terminals and facilities. SAFETEA-LU authorizes $32.5 billion for STP through 2009, to be distributed to states based on lane miles of federal-aid highways, total vehicle miles traveled on those highways, and estimated contributions from highway users into the Highway Account of the Highway Trust Fund.
- SAFETEA-LU authorizes $21.6 billion through fiscal 2009 for the **Highway Bridge Replacement and Rehabilitation Program** (HBRRP) to help states improve eligible highway bridges over waterways, topographical barriers, other highways, and railroads. Each state must spend at least 15 percent of its funds on public roads that are not federal-aid highways.

Transit funds

- **Urbanized Area Formula Grants** were authorized at $22.2 billion through fiscal 2009 to provide federal funds for transit capital, planning, and operating assistance in urbanized areas, that is incorporated areas with a population of 50,000 or more. For urbanized areas with populations of at least 200,000, funds are apportioned and flow directly to a locally designated recipient. For urbanized areas with less than 200,000 people, the funds are provided to the states for distribution.
- The **New Starts capital investment grants** were authorized at $9.3 billion through fiscal 2009. The New Starts program provides federal funds for construction of new or expanded fixed-guideway systems, including light rail, heavy rail, commuter rail, and busway/high occupancy

vehicle (HOV) facilities. The New Starts program includes a Small Starts program, authorized at $200 million a year, to support transit projects with a federal funding share of less than $75 million and total costs of up to $250 million. The small starts program will primarily benefit streetcar, trolley, and bus rapid transit projects. The maximum federal match for New Start projects stands at 80 percent, but program guidelines discourage projects for which the federal match exceeds 60 percent. If the U.S. Department of Transportation chooses to give higher priority to projects that require less than an 80-percent match from the federal government, it must take into consideration the differences in fiscal capacity among the state and local governments vying for federal funds.

- **Fixed Guideway Modernization capital investment grants** were authorized at $8.5 billion through fiscal 2009 to modernize or improve existing rail or fixed-guideway transit systems, including rehabilitation of rolling stock, track, structures, signals, passenger stations and terminals, and other system elements. Funds are allocated by a statutory formula to urbanized areas with rail systems that have been in operation for at least seven years.
- **Bus and Bus Facilities capital investment grants** were authorized at $4.9 billion through fiscal 2009 to provide federal funds for capital expenditures that support bus transit operations, such as bus acquisition, facility construction, and the construction of stations and terminals.
- **Non-Urbanized Area Formula Grants** were authorized at $2.2 billion through fiscal 2009, to provide funding to states for the support of public transportation in areas with populations of less than 50,000. Funds are apportioned based on each state's share of the non-urbanized population and may be used for capital, operating, state administration, and project administration expenses.
- The **Job Access and Reverse Commute program**, authorized at $852 million through fiscal 2009, provides formula funding for new transportation services designed to connect welfare recipients and low-income persons to jobs, training, and child care, as well as for efforts to transport workers to suburban work places. The funding formula is based on the number of low-income individuals and welfare recipients within a state or urbanized area compared to other states and urbanized areas. The program uses 60 percent of its funding for initiatives in urbanized areas with populations of 200,000 or more, 20 percent for initiatives in urbanized areas below 200,000, and 20 percent for rural areas; however states can reallocate funds away from rural and smaller urban areas if program objectives in those areas have been met.
- The new **Growing and High Density States program** under SAFETEA-LU taps into a percentage of the funding for urbanized and non-urbanized formula grants to allocate additional funds through those programs to states based on projected population growth rates for the forthcoming 15 years and also additional funds to states with population densities exceeding 370 persons per square mile and weighted for urbanized population. Total funding through fiscal 2009 for this program stands at $1.7 billion.

Additional transportation programs

- The **Congestion Mitigation and Air Quality program** (CMAQ) offers federal funds to reduce transportation-related emissions in geographic areas of nonattainment and maintenance for ozone, carbon monoxide, and small-particle-matter air pollution. SAFETEA-LU authorizes $8.6 billion for CMAQ through fiscal 2009 to be distributed to states based on their shares of population living in nonattainment and maintenance areas and weighted by the severity of transportation-related air quality problems, but each state is guaranteed 0.5 percent of the total program apportionment.
- The **High Priority Projects program** of SAFETEA-LU, authorized at $14.8 billion through fiscal 2009, is funding some 5,100 transportation projects specifically identified by Congress. By contrast, the TEA-21 transportation law that SAFETEA-LU replaced authorized $9.4 billion to fund 1,849 earmarked projects.

- The **Metropolitan Planning program** funds cooperative planning for transportation investment decisions in metropolitan areas, with contract authority distributed to states based on their share of the nation's population in urbanized areas. Compared to the previous federal law for surface transportation, SAFETEA-LU boosts federal funding for planning from 1 percent to 1.25 percent of the dollars for STP, IM, CMAQ, NHS, HBRRP, and transit authorizations, creating a total of $463.2 million for Metropolitan Planning through fiscal 2009.

Transportation financing

- SAFETEA-LU establishes the **State Infrastructure Bank program** to allow states to create revolving loan funds that may be capitalized with federal aid and used to attract nonfederal public and private dollars.
- The **Transportation Infrastructure Finance and Innovation Act (TIFIA) program** offers federal credit assistance to regionally significant transportation projects, including transit and rail. SAFETEA-LU authorizes $610 million through 2009 to pay the subsidy cost of supporting federal credit under TIFIA.
- **Grant Anticipation Revenue Vehicle** (GARVEE) bonds are issued based on future projections of federal-aid transportation funding to enable states to immediately finance projects instead of waiting for pay-as-you-go financing. GARVEEs can be issued for any highway project and transit project, as well as for the purchase of transit vehicles or the establishment of connections to intermodal ports and stations.

Business and Economic Development

Grants and assistance

- The U.S. Housing and Urban Development Department's **Community Development Block Grants** provide annual federal funding to cities, urban counties, and states for a wide range of activities focused on economic opportunity, development, neighborhood revitalization, and housing. Not less than 70 percent of CDBG funds must be used for activities that benefit low- and moderate-income persons, and other CDBG activities must prevent or eliminate slums or blight or address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to health or welfare. Funding distributed through CDBG's Formula B ensures dollars for communities with older infrastructure and lagging population growth or declining population.
- EDA's **Public Works and Development Facilities program** provides grants to state and local governments and other public and private entities to help them attract resources from the public and private sectors for investments in roads, water and sewer facilities, and other infrastructure initiatives that promote economic development and serve industry and commerce.
- SBA's **Small Business Development Centers** are cooperative efforts of the private sector, educational institutions, and federal, state, and local governments to offer one-stop information, assistance, and guidance to individuals and small businesses through central and easily accessible branch locations.
- EDA's **Economic Adjustment program** helps states and local governments cope with sudden and severe economic dislocation and long-term economic deterioration, and it encourages them to design and implement adjustment and redevelopment strategies that will strengthen their economic base.
- EDA's **grants to support planning organizations** aim to strengthen economic development planning capacity and help communities formulate and establish comprehensive economic development strategies designed to reduce unemployment and increase incomes.

- EDA's **technical assistance grants** finance feasibility studies and other projects leading to local economic development in depressed areas.
- EDA offers **Trade Adjustment Assistance** grants to help firms and industries adversely affected by increased imports.

Capital access initiatives

- The **Community Reinvestment Act** requires federal regulators to evaluate how well federally insured financial institutions meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Federal regulators take the CRA track record into consideration when reviewing applications for mergers, acquisitions, and branch openings. The law helps expand home lending, prevent red-lining, and increase financing for housing and economic development in core cities and older suburbs, and elsewhere. CRA provisions apply to banks and thrifts.
- The **Community Development Financial Institutions Fund** increases the availability of credit, investment capital, and financial services in distressed urban and rural communities. The fund stimulates the creation and expansion of CDFIs that serve challenged communities and low-income individuals and offers incentives to traditional banks and thrifts for investment, lending, and services in distressed areas. Programs include the Bank Enterprise Awards Program, the Financial Assistance Program for CFDIs, and the Technical Assistance Program for CDFIs.
- The **Section 108 loan guarantee program** allows CDBG entitlement communities – as well as small cities through CDBG state programs – to leverage their block grant funding for federally guaranteed loans for large-scale economic development and revitalization projects. The publicly funded loan guarantees help secure private-sector capital for projects in distressed areas. Local governments that borrow funds using Section 108 guarantees must pledge current and future CDBG dollars to cover the loan amount as security. The loan guarantee program is used to finance a range of development activities.
- The Small Business Administration's **Section 7(a) loan guarantee program** helps small firms secure loans and financing for business start-ups and expansions. Commercial lenders make and administer small business loans structured to meet SBA's requirements and for which they receive a guaranty from SBA. The lender and SBA share the risk that a borrower will not be able to repay the loan in full. The 7(a) program leaves responsibility for financing decisions to banks and other lenders rather than SBA.
- SBA's **Section 504 Certified Development Company program** helps small firms secure loans and financing for business start-ups and expansions. The Section 504 program is a long-term financing tool for economic development that helps small businesses finance major fixed assets, such as land, buildings, and machinery or equipment. Nonprofit certified development companies work with SBA and private-sector lenders on the financing, and the junior liens from the certified development companies are backed by SBA-guaranteed debenture.
- Under the **MicroLoan Program**, SBA makes funds available to nonprofit community-based lenders, which in turn make very small loans to eligible borrowers for start-ups, newly established small businesses, or growing small businesses. The average loan size for the MicroLoan Program is about $11,000.
- The federal government allows tax-exempt **Industrial Development Bonds** for manufacturers to be issued by state and local governments and quasi-public agencies for plant construction, plant improvements, and equipment acquisition. The tax exemption makes the bonds more attractive for investors. Issuing jurisdictions are subject to a state-wide volume cap on IDBs, and bond limits for a single project will rise to $20 million by 2009.

Incentives for targeted development and investment

- The **New Markets Tax Credit program** seeks to stimulate increased investment and economic growth in low-income communities, primarily by directing new business capital to low-income communities, encouraging investment in high-risk areas, and facilitating economic development in low-income communities. The program offers a federal tax credit of 39 percent over seven years for qualified equity investments made through community development enterprises (CDEs), which are certified for program participation by the U.S. Treasury Department's Community Development Financial Institution Fund. The CDFI Fund allocates NMTCs annually to CDEs through a competitive application process. CDEs use capital derived from tax credits to make loans to or investments in businesses and projects in low-income communities.
- **Historic Preservation Tax Credits**, administered at the federal level by the National Park Service and the Internal Revenue Service, offer a 20-percent tax credit on private investment in the rehabilitation of income-producing historic properties, including offices, warehouses, factories, hotels, retail stores, and housing, although only income-producing housing properties because the tax credits are restricted to depreciable properties. In addition, a 10-percent credit is available for work on income-producing buildings constructed before 1936 but not designated as historic. The tax credits can spur redevelopment in older communities.
- HUD's **Renewal Communities, Empowerment Zones, and Enterprise Communities programs** use tax incentives, as well as other strategies, to encourage business development, job creation, and housing in poor and distressed communities chosen for program participation. Sens. Olympia Snowe and Susan Collins (both R-ME) have introduced legislation (S. 2331) that would extend the designation for Round II and III empowerment zones to the full 15-year time period.

Workforce training and employment services

- Through the **Workforce Investment Act**, the U.S. Labor Department offers programs designed to impart new, transferable skills to people and improve the productivity of business. Federal initiatives include WIA's Adult Training, Dislocated Worker, and Youth Programs, as well as the state-administered national **Employment Service** for unemployed workers.

Energy

Energy supply, demand, and efficiency

- **Equipment standards and analysis**: According to the Alliance to Save Energy, federal appliance standards already save an estimated 2.5 percent of all U.S. electricity used, and existing and draft standards could save consumers and businesses $186 billion by 2020. The U.S. Department of Energy (DOE) has missed congressional deadlines for updating or establishing 18 appliance standards and has failed to issue new standards.
- **Residential and commercial building energy codes**: States implement residential and commercial building codes but rely on DOE for technical analysis, training, and implementation assistance. DOE provides guidance to the states on model building codes for energy.
- **Federal Energy Management program**: The federal government is the nation's single largest consumer of energy, using 1 percent of all energy consumed in the United States. This program helps government agencies reduce energy consumption.
- **Industrial Best Practices and Assessment Centers**: Through these DOE industrial efficiency programs, the government conducts plant-wide energy assessments, develops diagnostic software, offers training, develops technical references, and demonstrates and transmits

information about best practices.

- **Building technologies R&D**: Energy use for residential and commercial buildings accounts for over one-third of the nation's total energy consumption. When in comes to electricity, residential and commercial buildings use two-thirds what is generated in the United States. The federal government's program for building R&D funds new technology development to reduce energy use in buildings.
- **EPA and DOE Energy Star program**: This voluntary partnership program helps businesses, home owners, consumers, and state and local governments save money by investing in energy efficiency. In 2005 alone, Energy Star is estimated to have helped Americans save about $10 billion on their utility bills and prevented 30 million metric tons of greenhouse gas emissions – equivalent to the annual emission from 20 million vehicles. Every federal dollar spent on program costs yields an average of $75 in savings on consumer energy bills, the reduction of about 3.7 tons of carbon dioxide emissions, and the investment of $15 from private-sector capital.
- **Weatherization Assistance Program:** U.S. DOE's WAP provides funds to make dwellings more fuel efficient in the long term for low-income households.

Electricity industry regulation

- Competition in the electricity industry was first introduced through the federal **Public Utilities Regulatory Policies Act (PURPA) of 1978**, which enabled qualifying facilities to sell power – particularly from co-generators or renewable resources – to utilities at the cost that utilities would have paid to generate their own electricity. Recent legislation curtailed some of these PURPA provisions, while maintaining a focus on wholesale electricity competition.

- The **Energy Policy Act of 1992** opened the door to more competition by establishing a new class of "exempt wholesale generators" that could sell power in the wholesale market. Unlike the "qualifying facilities" regulated under PURPA, these merchant generators could charge market rates, sell their power to non-utilities, and avoid co-generation and renewable-energy requirements. Utilities, however, were not required to buy this independently produced power. The legislation also authorized the Federal Energy Regulatory Commission (FERC) to order utilities to "wheel," or transmit, a competitor's power across their lines.

- **Federal Energy Regulatory Commission Order 888** includes a set of specific rules that outline the conditions by which utilities must provide open, nondiscriminatory access to the nation's transmission system. The order allows anyone selling electricity wholesale – including independent generators, government-owned utilities, and industrial producers – to obtain transmission service at "just and reasonable" rates. The April 1996 order also declared that a transmission owner must charge the same rate for moving an independent's electricity as it would impose on its own power. In addition, the order stated that a transmission company must expand its capacity if an independent generator is willing to pay its share of the expansion costs. To further streamline the flow of wholesale electricity, FERC in December 1999 issued **Order 2000,** asking all transmission-owning utilities to join an independent regional transmission organization. Together, these orders reflected FERC's efforts to eliminate discrimination in the management of the nation's transmission system.

- The **Energy Policy Act of 2005** calls upon FERC to implement new electric reliability standards. By repealing the Public Utility Holding Company Act, it enables more utility mergers. The law also asks states to consider smart metering standards and directs the U.S. secretary of energy to conduct a comprehensive research-and-development program to ensure the integrity of electric systems.

Appendix B: Participants in Roundtables on Federal Policy for Older Core Cities and Close-in Suburbs

Pawtucket, Rhode Island

Pawtucket sessions hosted by Sen. Jack Reed, co-chair of the Northeast-Midwest Senate Coalition, and held July 11, 2005.

Thomas F. Ahern, Administrator, Rhode Island Public Utilities and Carriers
Charlie Bartsch, Senior Policy Analyst, Northeast-Midwest Institute
Daniel A. Baudouin, Executive Director, The Providence Foundation
Daniel Beardsley, Executive Director, Rhode Island League of Cities and Towns
Kip Bergstrom, Executive Director, Rhode Island Economic Policy Council
Gilbert Bindewald, Electricity Delivery & Energy Reliability Office, U.S. Department of Energy
Tony Botelho, Senior Vice President of Commercial Lending, Citizens Bank of Rhode Island
Joe Cannon, President, CAS America
Michael D. Cassidy, Director of Planning and Redevelopment, City of Pawtucket
Sean Casten, President, Turbosteam Corporation
Amintha Cinotti, Deputy Director of Planning and Development, City of Providence
Michael Corso, Counsel, Cornish Associates
Julian Dash, Real Estate Director, Puente
Richard Davis, Executive Director, The Pawtucket Foundation
Merlin DeConti, Vice President of Facilities, Johnson & Wales University
Jim Doyle, Mayor, City of Pawtucket
John Farley, Executive Director, TEC-RI
Elia Germani, Chairman, Rhode Island Public Utilities Commission
Vincent Graziano, Executive Director, Rhode Island Saving Energy
Bill Hatfield, President, Bank of America Rhode Island
Matt Kane, Senior Policy Analyst, Northeast-Midwest Institute
Skip Laitner, Office of Atmospheric Programs, U.S. Environmental Protection Agency
Al T. Lubrano, Chairman, Rhode Island Manufacturers Association
Peter Lombardi, Executive Director, Oil Heat Institute
Janice McClanaghan, Chief of Energy and Community Services, Rhode Island State Energy Office
Patricia McLaughlin, Director of Government, Corporate & Foundation Relations, RI School of Design
Mike McMahon, Executive Director, Rhode Island Economic Development Corp.
Joe Newsome, President & Executive Director, South Providence Development Corporation
Wendy Nicholas, Director of Northeast Office, National Trust for Historic Preservation
Katherine O'Dea, Executive Director, RI Tech Collective
Robert Puentes, Fellow, Metropolitan Policy Program, Brookings Institution
Jack Reed, U.S. Senator
Dennis Riley, District Representative, Office of Senator Jack Reed
Thomas C. Robillard, President and Chief Operating Officer, New England Gas Company
Michael Ryan, Executive Vice President, Narragansett Electric Company
Ted Sanderson, Ex. Dir., Historical Preservation and Heritage Commission, State of Rhode Island

Thomas D. Sepe, President, Community College of Rhode Island
Kris Sarri, Legislative Director, Northeast-Midwest Institute
Art Serpa, Director of Operations, Electric Boat
Merrill Sherman, President and CEO, BankRI
John Sinnott, Senior Development Director, Struever Brothers Eccles & Rouse
Erich Stephens, Executive Director, People's Power and Light
Charles Tebbets, Manager of Utility Operations, Rhode Island Hospital
Dan Weekley, Director of Northeast Government Affairs, Dominion Resources
Herb Weiss, Economic and Cultural Affairs Officer, City of Pawtucket
Steve Whitley, Senior Vice President and Chief Operating Officer, ISO New England
Scott Wolf, Executive Director, GrowSmartRI
Vanitha Venugopal, Program Officer for Community Revitalization, Surdna Foundation
Karen Voci, Senior Vice President for Program, The Rhode Island Foundation

Livonia, Michigan

Livonia session hosted by Rep. Thaddeous G. McCotter and held Sept. 26, 2005.

Charlie Bartsch, Senior Policy Analyst, Northeast-Midwest Institute
Scott Beckerman, Vice President, Comerica Bank
Lori Brist, President and CEO, Westland Chamber of Commerce
Melanie Brown, Project Manager, Redevelopment Ready Communities, Michigan Suburbs Alliance
Jeff Bryant, Director, Livonia Economic Development Office
Terry Carroll, Executive Assistant to the Mayor, City of Westland
Charlene Crowell, Policy Specialist, Michigan Land Use Institute
John Czarnecki, Vice President for Community Development, Michigan Economic Development Corp.
Mike Dennis, Director, Redford Housing and Community Development
John Dondanville, Vice President for Construction, Talon Development Group, Inc.
Jack Engebretson, Mayor, City of Livonia
Meredith Freeman, Program Officer, Local Initiatives Support Corporation
Wes Graff, President, Livonia Chamber of Commerce
David Harvey, City Manager, City of Garden City
Hassane Jamal, Director of Community and Economic Development, City of Dearborn Heights
Matt Kane, Senior Policy Analyst, Northeast-Midwest Institute
Dan Kildee, Chairman, Genesee County Land Bank
Tony Lentych, Executive Director, Community Economic Development Association of Michigan
Jaylee Lynch, Mayor, City of Garden City
Thaddeus G. McCotter, Member of Congress, U.S. House of Representatives
Robert McMahon, Manager of Community and Economic Development, SEMCOG
Mary Jo Mullen, Executive Director, Redford Township Chamber of Commerce
Dan Paletko, Mayor, City of Dearborn Heights
Art Papapanos, Vice President, Detroit Economic Growth Corporation
LaReina Reid, Environmental Specialist, City of Detroit
Ron Smedley, Redevelopment Coordinator, Michigan Department of Environmental Quality
Melissa Trustman, Director of Policy, Detroit Regional Chamber
John Walsh, Executive Director of Development and Government Relations, Schoolcraft College
Pat Wierzbicki, District Representative, Office of Congressman McCotter

Cleveland, Ohio

Cleveland sessions hosted by Rep. Stephanie Tubbs Jones and Mayor-elect Frank Jackson, and held Dec. 6, 2005.

Paul Alsenas, Director, Cuyahoga County Planning Commission
Charlie Bartsch, Senior Policy Analyst, Northeast-Midwest Institute
Tom Bier, Housing Research Center, Cleveland State University
Bill Boag, Director of Public Works, City of Shaker Heights
Joe Calabrese, CEO and General Manager, Greater Cleveland Regional Transit Authority
Leonard M. Calabrese, Director, Committee on Catholic Community Action
Faye Callahan, Citizen, Beachwood, OH
Dana Capers, Community Development Officer, Huntington National Bank
Mittie Chandler, Associate Professor and Director Urban Child Research, Cleveland State University
Julius Ciaccia, Director of the Department of Public Utilities, City of Cleveland
Michael Ciaravino, Mayor, City of Maple Heights
Ruth Clevenger, Vice President of Community Affairs, Federal Reserve Bank of Cleveland
Collette Clinkscale, Water Department Commissioner, City of East Cleveland
Donna Dabbs, President, Urban League Young Professionals
Dennis Decker, Division Administrator, U.S. Federal Highway Administration, Ohio Division
Rose Ann DeLeon, Vice President for Strategic Development, Port of Cleveland
David DiPietro, City Engineer, City of Garfield Heights
Jeffrey J. Filarski, City Engineer, City of Lyndhurst
Marcia L. Fudge, Mayor, City of Warrensville Heights
Ed Gallagher, Service Director, City of South Euclid
Louise Gissendaner, Senior Vice President and Director of Community Development, Fifth Third Bank
Roger Gries, Most Reverend, Church in the City
Melvenia Jefferson Gueye, Legislative Director, Office of Congresswoman Stephanie Tubbs Jones
Hank Gulich, Service Director, City of Euclid
Constance Hagg, Northeast Ohio Regional Sewer District
Amy Hanauer, Executive Director, Policy Matters Ohio
Craig Hebebrand, Innerbelt Project Manager, Ohio Department of Transportation, District 12
Helen Hertz, Realtor, Re/Max
George Hrbek, Reverend, Lutheran Metropolitan Ministries
Edward Hren, Village Engineer, Village of Woodmere
Linda Hudecek, Senior Vice President, Community Finance, Neighborhood Progress, Inc.
Frank Jackson, Mayor-elect, City of Cleveland
Lavette Jackson, Realtor, Gramar Realty
Deb Janik, Senior Vice Pres. of Business and Real Estate Development, Greater Cleveland Partnership
Stephanie Tubbs Jones, Member of Congress, U.S. House of Representatives
Matt Kane, Senior Policy Analyst, Northeast-Midwest Institute
Robert Klaiber, Cuyahoga County Engineer
Tom Kreczko, Staff Engineer, City of Beachwood
Norm Krumholtz, Professor of Urban Planning, Cleveland State University
Kamla Lewis, Director, Neighborhood Revitalization, City of Shaker Heights
Thomas Longo, Mayor, City of Garfield Heights
Howard Maier, Executive Director, Northeast Ohio Areawide Coordinating Agency
Lance T. Mason, State Representative, Ohio House of Representatives
Kate Monter Durban, Assistant Director, Cleveland Housing Network, Inc.
Bruce Murphy, President of Community Development Banking, KeyCorp
Sharron Murphy-Williams, Executive Director, PhéBe Foundation

Chris Nance, Deputy District Director, Office of Congresswoman Stephanie Tubbs Jones
Chris Nielson, Commissioner, Cleveland Division of Water
Kevin O'Brien, Executive Director of the Great Lakes Environmental Finance Ctr, Cleveland State Univ.
Lyn Pennington Luttner, Resources Management Division, U.S. Environmental Protection Agency
Ron Petkovic, Housing Manager, City of Euclid
Victoria Peters, Director of Engineering/Operations, Federal Highway Administration, Ohio Division
Mary Helen Petrus, Director of Policy Development, Cleveland Neighborhood Development Coalition
George Phillips, Executive Director, Cuyahoga Metropolitan Housing Authority
Betty Pinkney, District Director, Office of Congresswoman Stephanie Tubbs Jones
Robert Powell, SRP Development LTD Partnership
Kathryn Puckett, Executive Director, Euclid-St. Clair Development Corporation
Claudette Robey, Assistant Director, Great Lakes Environmental Finance Center
Terry Robbins, Director of Community Development, Ohio Savings Bank
Herman Rodrigo, Director of Program Development, Federal Highway Administration, Ohio Division
Rose M. Rodriguez-Bardwell, Executive Director, Spanish American Committee
Clarence Rogers, Commissioner, Public Utilities Commission of Ohio
Darryl Rush, Director of Community Development, City of Cleveland
William B. Schatz, General Counsel, Northeast Ohio Regional Sewer District
Leo Serrano, Program Director, LISC NEO
Ollie Shaw, Commissioner, Cleveland Water Pollution Control
Douglas Shelby, Field Office Director, U.S. Department of Housing and Urban Development
Ken Silliman, Attorney at Law, Cleveland
Jim Sonnhalter, Community Project Manager, City of Euclid
Tom Stone, Executive Director, Mount Pleasant NOW Development Corporation
Michael Taylor, President and Executive Director, National City Community Development Corporation
Michael E. Taylor, Business Liaison, Office of Congresswoman Stephanie Tubbs Jones
Paul Taylor, Principal, SRP Development LTD Partnership
Curtis Thompson, President of Community Relations, African American Chamber of Commerce
Timothy Tramble, Executive Director, Burten, Bell, Carr Development Corporation
Lee Trotter, Deputy County Administrator, Cuyahoga County
Ken Trypak, City Engineer, City of Maple Heights
Bill Wervey, Building Commissioner, City of Garfield Heights
A.C. Williams, Service Director, City of Warrensville Heights
Rachid Zoghaib, Deputy Commissioner, Cleveland Water Pollution Control

Washington, DC

Cleveland sessions hosted by the Northeast-Midwest Congressional and Senate Coalitions and held Feb. 23, 2006.

Charlie Bartsch, Senior Policy Analyst, Northeast-Midwest Institute
Moria Bergin, Legislative Assistant, Office of Congresswoman Slaughter
Jason Boehlert, Legislative Director, National Association of Development Organizations
John Bohm, Legislative Programs and Media, National Assoc. of Housing and Redevelopment Officials
Ken Brown, Principal, The Ferguson Group
Kim Burnett, Program Officer for Community Revitalization, Surdna Foundation
Evan Cash, Legislative Assistant, Office of Senator Levin
Paul Connor, Executive Director, National Assoc. of Local Government Environmental Professionals
Richard Dines, Program Manager for Cooperative Development, NCB Development Corporation
Deeohn Ferris, President, Global Environmental Resources, Inc.
Ed Gilliland, Vice Pres. and Senior Dir. for Advisory Services, International Economic Dev. Council

Jim Gray, Vice President, NCB Development Corporation
Melvenia Gueye, Legislative Director, Office of Congresswoman Tubbs Jones
Chris Hickling, Legislative Assistant, Office of Congressman Meehan
Matt Kane, Senior Policy Analyst, Northeast-Midwest Institute
Jennifer Leonard, Director, National Vacant Properties Campaign
Alan Mallach, Director of Research, National Housing Institute
Alex Manning, Legislative Director, Office of Congressman McCotter
Lisa Mark, Legislative Director, Northeast-Midwest Congressional Coalition
Rob Puentes, Fellow, Metropolitan Policy Program, Brookings Institution
Joe Schilling, Director of Research and Training, National Vacant Properties Campaign
Bridget Stesney, Deputy Director, National Assoc. of Local Government Environmental Professionals
Ari Strauss, Legislative Director, Northeast-Midwest Senate Coalition
Emily Wadhams, Vice President for Public Policy, National Trust for Historic Preservation
Margaret Wetherald, Professional Staff, Committee on Environment and Public Works
Patrice Willoughby, Chief of Staff, Office of Congresswoman Tubbs Jones
Alice Yates, Legislative Assistant, Office of Senator Levin