JOINT HEARING ON H.R. 3467, "SAVING OUR CHILDREN: THE AMERICAN RENEWAL ACT OF 1996"

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS

AND THE

SUBCOMMITTEE ON EARLY CHILDHOOD, YOUTH AND FAMILIES

OF THE

COMMITTEE ON ECONOMIC AND EDUCATIONAL OPPORTUNITIES

HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JULY 30, 1996

Committee on Ways and Means Serial 104–56
Committee on Economic and Educational Opportunities Serial 104–77

Printed for the use of the Committee on Ways and Means and the Committee on Economic and Educational Opportunities

U.S. GOVERNMENT PRINTING OFFICE

35–748 CC WASHINGTON : 1996

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-053887-4

AUTHENTICATED U.S. GOVERNMENT INFORMATION GPO

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JOINT HEARING ON H.R. 3467, "SAVING OUR CHILDREN: THE AMERICAN COMMUNITY RENEWAL ACT OF 1996"

TUESDAY, JULY 30, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
JOINT WITH COMMITTEE ON
ECONOMIC AND EDUCATIONAL OPPORTUNITIES,
SUBCOMMITTEE ON EARLY CHILDHOOD, YOUTH AND FAMILIES,
Washington, DC

The joint Subcommittees met, pursuant to notice, at 10:35 a.m., in room 1100, Longworth House Office Building, Hon. Randy "Duke" Cunningham and Hon. E. Clay Shaw, Jr. (Chairmen of the Subcommittees), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON HUMAN RESOURCES

FOR IMMEDIATE RELEASE
July 23, 1996
No. HR-14

CONTACT: (202) 225-1025

Shaw and Cunningham Announce Joint Hearing on H.R. 3467, "Saving Our Children: The American Community Renewal Act of 1996"

Congressman E. Clay Shaw, Jr. (R-FL), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, and Congressman Randy "Duke" Cunningham (R-CA), Chairman of the Subcommittee on Early Childhood, Youth and Families of the Committee on Economic and Educational Opportunities, today announced that the Subcommittees will conduct a joint hearing on H.R. 3467, "Saving Our Children: The American Community Renewal Act of 1996." **The hearing will take place on Tuesday, July 30, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be heard from invited witnesses only. Witnesses will include Members of Congress, community leaders, and education and tax analysts. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

An important aspect of the welfare reform debate has been many Americans' contention that the current welfare system has usurped the traditional role of individuals and private organizations in helping Americans avoid poverty and welfare dependency. Several bills have been introduced in both the House and the Senate that are designed to reverse this trend by stimulating private sector involvement in promoting moral development, strengthening families, and supporting economic empowerment of individuals and communities. Most of the bills also contain provisions intended to strengthen the role of private charities in achieving these goals.

H.R. 3467, introduced on May 16, 1996, by Reps. J. C. Watts (R-OK) and Jim Talent (R-MO), would provide for 100 Renewal Communities, established in poor urban and rural areas, that would promote economic development by providing tax advantages for entrepreneurial activity. The bill would also establish scholarships so that children from poor families living in the Renewal Communities could attend private schools of their choice. Finally, the bill would provide tax incentives for charitable contributions and would allow neighborhood groups, including religious institutions, to provide drug treatment and drug counseling programs.

In announcing plans for the hearing, Chairman Shaw said: "The Watts/Talent bill is a good complement to the welfare reform bill now moving through Congress. A vital part of welfare reform must be the economic development of poor communities and the growth of private organizations trying to help poor families establish their independence." Chairman Cunningham added: "Poor Americans should have the same opportunity as more affluent Americans to send their children to private schools."

WAYS AND MEANS SUBCOMMITTEE ON HUMAN RESOURCES

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement, with their address and date of hearing noted, by the close of business, Tuesday, August 13, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Human Resources office, room B-317 Rayburn House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS_MEANS/' or over the Internet at 'GOPHER.HOUSE.GOV' under 'HOUSE COMMITTEE INFORMATION'.

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Chairman SHAW. If Members and guests can find a seat, we will go ahead and proceed.

As you will notice, there are a lot of empty chairs here. It is not a reflection of the interest in the subject matter before us. There are two things going on right now, a memorial service for one of our colleagues, Ham Fish, and also, votes aren't expected until later in the day, so many of our Members are making their way back to Washington. So, as the hearing proceeds, I would guess that we will fill many of the chairs that you see empty right now.

I welcome you to this hearing today. It is appropriate that as we move toward final passage of historic legislation to reform the welfare system that we recognize, and even with final passage, that much more needs to be done to renew our Nation's communities.

One important effort is embodied in the legislation before us, H.R. 3467, "Saving our Children: The American Community Renewal Act of 1996," cosponsored by Representative J.C. Watts and Representative Jim Talent. I want to thank both of my distinguished colleagues for being at this hearing today to share with all of us the hope and vision behind this important legislation.

The principles that underlie the American Community Renewal Act of 1996 are the very same principles that have guided the Republican welfare reform proposals. These principles include an emphasis on personal responsibility, the empowerment of individuals through choice, the reliance on the free enterprise system, and the commitment to local, community-based solutions to social problems.

The sponsors of H.R. 3467 and its supporters recognize what it takes to change our communities and to revitalize our neighborhoods. This hearing reflects the breadth of the legislation we have before us. It will certainly take a fundamental restructuring of society to change the status quo, a change that cannot take place without the input from all of you here, from Congress, State, and city representatives, think tank experts, charitable organizations, and members of various grassroots groups.

I was speaking with one of the witnesses that will be before us later today and she was saying that she disagreed with what we were doing, but certainly didn't disagree with our motives. I think our motivations are all in the same direction.

Are we going to make mistakes? Absolutely. Have we already made some mistakes that we don't know about? Absolutely. The present welfare system that has to be changed, that has set up 60 years of stagnation, is it that bad? I think we all agree that it is a terrible system that must be changed.

We are going to have to be patient with each other through the transition that we are going through from the present welfare system to a system that emphasizes work and self-responsibility, and I think it is not going to be an easy matter, but it is one that I think we can certainly accomplish if we work together.

I would now yield to my co-Chairman, Mr. Cunningham, for any opening remarks that he might have.

[The opening statements of Chairman Shaw and Mr. Rangel follow:]

Opening Statement of The Honorable E. Clay Shaw, Jr.

Joint Hearing on: H.R. 3467,
"Saving Our Children: The American Community Renewal Act of 1996

July 30, 1996

I welcome all of you to this hearing today. It is appropriate that as we move toward final passage of historic legislation to reform the welfare system that we recognize that even with final passage much more still needs to be done to renew many communities in our nation. One important effort is embodied in the legislation before us: H.R. 3467 - Saving Our Children: The American Community Renewal Act of 1996 co-sponsored by Rep. J.C. Watts (R-OK) and Rep. Jim Talent (R-MO). I want to thank both of my distinguished colleagues for being at this hearing today to share with all of us the hope and the vision behind this important legislation.

This principles that underlie The American Community Renewal Act of 1996 are the very same principles that have guided the Republican welfare reform proposals. These principles include an emphasis on personal responsibility, the empowerment of individuals through choice, the reliance on the free enterprise system, and, the commitment to local community-based solutions to social problems.

The sponsors of H.R.3467 and its supporters recognize what it takes to change our communities and to revitalize our neighborhoods. This hearing reflects the breadth of the legislation we have before us. It will certainly take a fundamental restructuring of society to change the status quo. A change that can not take place without the input of all of you here today - from Congress, state and city representatives, think tank experts, charitable organizations and members of various grassroots groups. Again, thank you all for coming.

OPENING STATEMENT OF MR. RANGEL

Subcommittee on Human Resources Hearing on H.R. 3467, The American Community Renewal Act," July 30, 1996

I am pleased that we are here today to focus attention on ways in which the federal government can participate in revitalizing depressed areas of our cities and rural regions and how we can best help the American citizens who live and work in those areas.

What those citizens desperately need is government intervention that is well-thought-out and carefully targeted, assistance that will help them improve their jobs skills and their opportunities for employment. They need an environment that reduces the chances of crime, promotes a spirit of community and commitment, and encourages a healthy and lively business sector.

I welcome this discussion of H.R. 3467. I am not convinced that the specifics of this bill are the right answer, however. Much of the federal benefit provided by this bill will accrue to well-off taxpayers living outside the designated "renewal communities" that the bill would create,

rather than going to those needy residents and workers in distressed areas. And, most of the tax benefits provided by the bill are triggered by improvements in capital and physical property, rather than by investment in education, job retraining, and other improvements in human capital. I would prefer to see more emphasis on people-oriented policies to help those in need by making them more capable of helping themselves.

Nevertheless, I believe that this hearing is very useful. I welcome the opportunity to hear from the community activists, local officials, and researchers who will be our witnesses today. I hope they can advise us regarding the most effective ways of targeting federal efforts to solve one of our society's most intractable problems.

Chairman CUNNINGHAM. Thank you, Mr. Chairman.

I will be brief, and I would like to submit the majority of this for the record, but part of restoring the hope in the education system, there are many American schools that are good. I would be foolish not to say that.

My wife is a principal in a public education system. I taught myself on secondary education and also at the postsecondary level, and there are many good schools in the Nation, but if we travel across the country, there are many, many of our schools that are failing.

We have less than 12 percent, Mr. Chairman, of our schools across this country who have got even a single phone jack, and if we look at fiber optics and computers in the 21st century, how are we preparing those children?

I would say that, although this is a hearing, I think maybe the focus is probably in the wrong direction, and let me be specific.

I am trying to take the Federal Government out of education. I think that education, whether it be choice in our school systems or public education, ought to emanate from the public. Where we get very low return on our dollars that come to Washington, DC, in my opinion, liberals have cut education over the last 30 years by having big bureaucracies with additional paperwork that take away from the dollars going down to our classrooms, both in the public and private sector.

This particular hearing we are looking at is for lower income children. In my own district, I have got Bishop McKenney, who is the pastor of a church and he also has a private school that was one of our witnesses during past hearings. He couldn't make it here. Jack Kemp also helped him, and Jack is going to speak today.

I want to thank the Chairman, and I look eagerly to this hearing, but I think we also need to look and see how we reduce the size of the bureaucracy here in Washington, DC, return the power to people, State and local governments, where we have the standards set up in a local area with parents and with the schools themselves and take Washington, DC, other than maybe research and development, looking at how we get our schools upgraded to meet the needs of the 21st century.

With that, I yield back the balance of my time and thank the Chairman, and especially the great J.C. Watts from the State of Oklahoma, a very famous quarterback and friend of education, and Jim Talent from Missouri.

Thank you for bringing the bill up.

Mr. Chairman, I yield back.

[The opening statement follows:]

OPENING STATEMENT OF
REP. RANDY "DUKE" CUNNINGHAM
CHAIRMAN, HOUSE SUBCOMMITTEE
ON EARLY CHILDHOOD, YOUTH AND FAMILIES

ON H.R. 3467
THE AMERICAN COMMUNITY RENEWAL ACT OF 1996

JOINT HEARING WITH HOUSE WAYS AND MEANS
SUBCOMMITTEE ON HUMAN RESOURCES

TUESDAY, JULY 30, 1996, 10:00 A.M.
1100 LONGWORTH BUILDING
U.S. CAPITOL

Good morning. As chairman of the House Subcommittee on Early Childhood, Youth and Families, I am honored today to co-chair this hearing on the American Community Renewal Act, H.R. 3467. My opening statement will be brief. When we congressmen speak too much, we do not hear enough from the people.

The American Community Renewal Act represents a bold approach to restoring hope for the American Dream in communities where it has been lost. Part of restoring this hope is reviving excellence in education. Many American schools are excellent. And I strongly support public education. But in many major cities, our schools are failing to graduate young people who are prepared to advance into the high-tech careers where most of the best paying jobs are. We know that in our poor communities, there are families who do everything they can to raise their children well. But schools full of drugs and empty of hope simply let them down.

To address this challenge, the American Community Renewal Act proposes a major investment in private school choice scholarships for children lower-income families. Perhaps our children are too precious to leave to a public education monopoly that is beholden to the special interests over the children's interest. I believe there are important issues to be addressed. Transportation of students is a potentially costly factor. We should also review the impact of this plan on the quality and financing of local public schools, and the issues surrounding scholarships to religious schools.

At heart, though, we must work to restore hope and opportunity where it is scarce today. I believe that this hope begins with education. And the President and the First Lady should not be the only residents of American government housing to have a real choice of where their child goes to school. I look forward to hearing from our witnesses, and I yield back the balance of my time.

Chairman SHAW. I would say to my friend that Mr. Watt is still a quarterback, throwing the ball very precisely since he has been here in the Congress.

I would now yield to Mr. Kildee for any opening statement he might like to make.

Mr. KILDEE. Thank you very much, Mr. Chairman.

First of all, I want to thank you for initiating this morning's hearing on this proposal. Although I have serious problems with this legislation, I think it is very important that we take a comprehensive look at the challenges faced by low-income communities.

So I am gratified that we are not looking at these problems in isolation. Having said that, however, I am dismayed that title IV of this bill, which seeks to address the educational needs of children and low-income communities, seems to rely on a single solution, a mandatory school voucher program.

I strongly disagree that the focus of this much energy and funding should be on a program that I feel will benefit so few students.

In addition, this is a Federal mandate, which in this present Congress, it is to say the least, ironic. In State after State, residents have rejected statewide referenda on school voucher plans, including a highly publicized rejection by a margin of 70 to 30 percent in California in 1993.

The question for all of us, Mr. Chairman, is how to improve the academic achievement of children in low-income communities. To me, the answer is pretty clear. Education reform needs to be focused on strategies to lift the performance of all students in all schools. The bill should be focused on exploring ways to teach local innovation and encourage improvements in how teachers teach and what students learn.

The most serious problem I have with what is proposed here is that if we encourage students or give them some help or their parents some help in moving from school A to school B because school A is not performing well, what do we do with those students who for one reason or another remain back in school A. I think we should really use our energy, our time, our talent, and the money of the taxpayers to make sure that children in all schools have a good education.

I would submit my entire statement for the record, Mr. Chairman.

[The opening statement follows:]

July 30, 1996

Honorable Dale E. Kildee

Joint Hearing on H.R. 3467- American Community Renewal Act

Mr. Chairmen, I want to thank you both for initiating this morning's hearing on this proposal. Although I have numerous and serious problems with the legislation, I do think it is important that we look at the challenges faced by low-income communities comprehensively because those challenges are closely linked. Disinvestments tend to feed a spiral. When businesses leave a community, employment declines and crime increase. A declining tax base destabilizes school finances and planning. Declining resources force teachers to leave the system and families to flee to the suburbs which further erodes the tax base.

So I am gratified that we are not looking at these problems in isolation. Having said that, I am dismayed that Title of this bill which seeks to address the educational needs of children in low income communities relies on **a single solution - a mandatory school voucher program.** I strongly disagree that the focus of this much energy and funding should be on a program that **benefits so few students**. In addition, the fact that this is a federal mandate is to say-the-least ironic. In state after state, residents have rejected state-wide referendum on school voucher plans, including a highly publicized rejection by a margin of 70 - 30% in California in 1993. Mr. Chairman, in the 1996 legislative session **20 state legislatures rejected voucher plans** including 7 states where the Republican party controls both House and 5 in which control is split.

The question for all of us is how to improve the academic achievement of children in low-income communities. To me, the answer is pretty clear – education reform needs to be focused on strategies for lifting the performance of <u>all</u> students in <u>all</u> schools. This bill should be exploring ways to support local innovation and encouraging improvements in how teachers teach and what students learn.

Mr. Chairmen, I applaud the efforts of the authors of this legislation. In my opinion, it will, however, add to the education challenges faced by low-income communities. I think there are huge significant implementation problems and I have many questions about how children currently served by other national education programs, such as IDEA, would be served under this proposal.

Finally, I am gravely concerned about the way participating private and parochial schools are insulated from public accountability under this bill. I am a strong supporter

of private and religious education in this country. Both are a vital part of the rich array of education opportunities and I support their independence from federal oversight. But you can't have it both ways. If you accept taxpayer resources you should not be able to reject children because they have a particular disability or reject teachers because they are the wrong gender or religion. In that sense, this proposal is a fairly sizable step backwards.

I know we will have a lively dialogue here today and I look forward to hearing the testimony of each of our witnesses.

Chairman SHAW. Thank you.

Mr. Goodling, do you have an opening statement that you wish to make?

Mr. GOODLING. I will make a very brief statement simply because we may have time on the floor by the time the second panel gets to testify.

I want to welcome Scott Dempwolf who is here to share innovative, community-based activities that are taking place at Crispus Attucks, which is one of the country's largest community centers.

For many years, I have worked very closely with Scott and also Bobby Simpson on early children programs, job training programs, youth bills, Project Connection, Even Start, and many others, and now I am excited about a new program. They want to develop one of the main thoroughfares in York, Boundary Avenue, and I hope to work closely with them on this project.

The proof of their success is in the fact that the community is willing to get behind them in almost every effort that they put forth, not only with the go-ahead, but with money, and they have just made the biggest difference in the world in the city of York. I am sure you will enjoy their testimony, as well as the booklet that they have for all of you to see. So I welcome them.

I may not be here for the second panel because I may be on the floor.

Chairman CUNNINGHAM. Thank you, Mr. Goodling.

Without objection, all the Members may submit whatever information they wish as opening statement for the record.

At this time, I would ask that Mr. Watts be joined by his colleagues, Mr. Kolbe, Mr. Knollenberg, and Mr. Scott at the witness table.

It is now my pleasure to recognize the gentleman from Oklahoma, Mr. Watts.

STATEMENT OF HON. J.C. WATTS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. WATTS. Thank you, Mr. Chairman.

Let me say at the outset, we operate in an arena in Washington, and in government in general, at the State and Federal level, where you have Republicans, Democrats, Independents, and men and women of different colors of skin and different religions.

I know every time something is introduced in this city or in this body there is supposed to be opposition. Not everyone is going to agree with every piece of legislation that comes down the pike. There is supposed to be opposition, and opposition comes for many different reasons. Somebody may disagree with a piece of legislation because of its substance, because of a certain element of that legislation, because of the many interest groups that may or may not be represented in a piece of legislation. I hope I can ease the hearts of those who are in this hearing today to say to them that as far as special interest goes, the only special interest I have and that we had in producing this legislation was America's kids, the poor communities, and especially our poor kids and giving them an opportunity to achieve and have every opportunity possible available to them to accomplish the American dream.

So, with that, I want to say good morning, and thank Chairman Shaw and Chairman Cunningham and the Members of the Human Resources Subcommittee, as well as the Members of the Early Childhood, Youth, and Families Subcommittee, for holding this hearing today.

I believe this hearing is evidence of our shared commitment to helping America's poor communities and the millions of adults and children who call these communities home.

According to the Human Resources Subcommittee, over the past 30 years we have spent over $5 trillion on well-intentioned, but failed social welfare programs. These welfare programs have not alleviated poverty. Instead, they have alienated poverty. Poverty is worse today than when these programs originated. This is not compassion, and neither is addicting people to government.

The day has come when we all recognize this failure. It is evident around all of us, from the dilapidated city buildings that once towered as signs of economic prosperity to the children who now wander the streets looking for a chance, but running head on with trouble.

I come before you today as someone who has witnessed this frustration and despair, as a concerned father, a concerned citizen, as a youth minister, and a Congressman.

Just as many of the youth leaders present today, I have spent my life with young people in both rural and urban areas, helping them overcome the challenges and difficulties of their lives. Just like many of the youth leaders here today, I know how "big government" can hinder programs aimed at truly helping and reaching out to those in need.

Today, many social programs aimed at helping our youth and the poor deny moral responsibility and the role of religion. As a result, we have failed those who need our help the most. This is a flaw Congressman Talent and I have consistently seen and something we have sought to address through the Community Renewal Project.

We must begin to encourage economic and spiritual renewal for Americans by promoting work, family, faith, and community, not by discouraging work, family, faith, and community.

I can testify to the damage our current system is producing, and others will testify from living through the experience. My personal experience has taught me that throwing money at a problem is not necessarily a solution. The greatest resource we have in America is not the automobile industry or agriculture or the energy business or the high-tech industry. The greatest resource we have in America is our people, their hopes, their dreams, their ideas, their ambition, and most importantly, their goodness. People, not government, are our biggest resources, and people, not government, change hearts.

Our legislation removes needless government obstacles and allows people to be a resource, to truly help those in need.

I have learned this by traveling around the country and meeting with people who are in the trenches every day, making a difference despite government obstacles, people like Freddie Garcia who runs Victory Fellowship in San Antonio, Texas. Freddie houses hundreds of former drug addicts, men who have been in prison so many

times they have lost count, and he helps put them back on their feet. However, Freddie is limited in what he can do because he doesn't have much money, and the government refuses to give him funding despite his success rate of over 80 percent. This is only because his program involves religion.

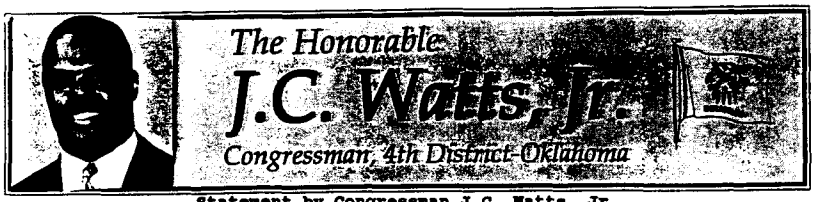
There are also people in my home State of Oklahoma who are doing wonderful things to help others back on their feet, including the Resurrection House in Chickasha, Oklahoma, which helps the homeless, and Doc Benson in Oklahoma City who runs an education and employment ministry. Doc Benson has also achieved an over 80-percent success rate in getting people off the streets, off welfare, into productive lives on a budget of $100,000 a year annually. Can you imagine what he could do if he had used over $5 trillion?

Programs like these are the genesis and inspiration for the Community Renewal Project because these programs work and change lives. They give citizens a vested interest in their community and give them a stake in the system.

I am always amazed at how dramatically people's attitudes change when they feel like they have ownership in a system. Community Renewal allows people the opportunity to make a real difference.

Thank you, Mr. Chairman.

[The prepared statement follows:]



Statement by Congressman J.C. Watts, Jr.
Joint Hearing on the Community Renewal Project
Ways & Means and Economic & Educational Opportunity Committees
July 30, 1996

Good morning. First, I want to thank Chairman Shaw, Chairman Cunningham, and the members of the Human Resources Subcommittee as well as the members of the Early Childhood, Youth, Families Subcommittee for holding this hearing today. I believe this hearing is evidence of our shared commitment to helping America's cities and the millions of adults and children who call these cities home.

Over the past 30 years, we have spent over $5 trillion on well-intentioned, but failed social welfare programs. These welfare programs have not alleviated poverty. Poverty is worse today than when these programs originated. This is not compassion, and neither is addicting people to the government. The day has come when we all recognize the failure; it's evident all around us -- from the dilapidated city buildings that once towered as signs of economic prosperity - to the children who now wander the streets looking for a chance but running head on with trouble.

I come before you today as someone who has witnessed this frustration and despair, as a concerned father, citizen and Congressman. Just as many of the youth leaders present today, I have spent my life with young people in both rural and urban areas, helping them over come the challenges and difficulties of their lives. And just like many of the youth leaders here today, I know how "Big Government" can hinder programs aimed at truly helping and reaching out to those in need.

Today many social programs aimed at helping our youth and the poor, deny moral responsibility and the role of religion. As a result we have failed those who need our help the most. This is a flaw Congressman Talent and I have consistently seen and something we have sought to address through the Community Renewal Project. We must begin to encourage economic and spiritual renewal for Americans by promoting work, family, faith and community, not by discouraging work, family, faith and community.

I can testify to the damage our current system is producing, and others will testify from living through the experience. My personal experience has taught me that throwing money at a problem is not a solution. People, not government, are our biggest resources, and people, not government change hearts. Our legislation removes needless government obstacles and allows people to be a resource -- to truly help those in need.

I have learned this by travelling around the country and meeting with people who are in the trenches everyday, making a difference, despite government obstacles. People like Freddy Garcia who runs Victory Fellowship in San Antonio, Texas. Freddy houses hundreds of former drug addicts, men who have been in prison so many times they've lost count, and he helps put them back on their feet. However, Freddy is limited in what he can do because he doesn't have much money, and the government refuses to give him funding despite his success rate of over 80%. This is only because he involves religion in his program.

There are also people in my home state of Oklahoma who are doing wonderful things to help others back on their feet including the Resurrection House in Chickasha, Oklahoma and Doc Benson's TEAM in Oklahoma City. Doc Benson also has above an 80% success rate in getting people off the streets and into jobs, on a $100,000 budget. Can you imagine what he could do if he had $5.2 trillion to work with?

Programs like these are the genesis and inspiration for the Community Renewal because the programs work and change lives. They give citizens a vested interest in their community, and allow people to make a difference.

After visiting with community leaders and families from across the country, Congressmn Talent and I kept hearing that communities lacked two primary foundations vital to renewal: 1) strong cultural and spiritual roots and 2) a democratic capitalist job creating system which is practically non-existent in urban areas today.

We realize helping communities develop cultural and spiritual roots cannot be legislated, that is why the goal of our legislation is to give people the means to meet this goal -- a helping hand to climb the ladder of economic opportunity. To help reach this end, our bill empowers families in Renewal Communities by establishing Family Development Accounts which can be used for education, creation of a small business, or the purchase of a home. It also empowers families by creating an Educational Choice Scholarship program that would both expand children's educational options and take pressure off budget-strapped public schools.

When I visited a program in Michigan, we asked how important this school choice option was. I personally did not realize how valuable this choice is for people. They told us about their kids who walk through metal detectors everyday to face a drug and gang ridden environment, and the fear they have that their children won't be able to read and write or compete in the job market. After listening to them, it was obvious that school choice is an essential key to empowering people. School choice should not be the private reserve of America's economic elite.

The bill also allows neighborhood groups, including religious groups, to join in public drug treatment and drug counseling efforts. This part of the bill would enable men like Freddy Garcia at the Victory Fellowship to reach out and save more lives.

The bill includes Congressman Kolbe and Congressman Knollenberg's charitable tax credit legislation which would encourage contributions to charities that aid the poor.

To help invigorate the economies of these neighborhoods the bill would greatly reduce the tax burdens born by renewal communities, including a 100% exclusion from capital gains taxes. The bill would also facilitate the creation and survival of businesses in renewal communities by easing regulatory requirements. It also extends the Work Opportunity Tax Credit which encourages businesses to hire disadvantaged individuals.

We have a golden window of opportunity with the Community Renewal legislation to do something for this country. When I look around this room at these children, I am reminded why I believe so strongly in the Community Renewal Act. I am inspired by the men and women who serve as role models and offer moral guidance, and I am excited by the innocent hope I see in our childrens eyes.

I can guarantee everyone here that if we will advocate the principles of the Community Renewal Project: family, faith, work and community over the next 30 years as fervently as we have the Great Society over the last 30 years, we will Save Our Children and the cities across America they call home.

Chairman SHAW. Thank you, Mr. Watts.

Mr. Knollenberg.

STATEMENT OF HON. JOE KNOLLENBERG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. KNOLLENBERG. Thank you, Mr. Chairman, Chairman Shaw and Chairman Cunningham, for giving us this opportunity to speak in favor of the Saving Our Children, commonly called the American Community Renewal Act, and especially on the subject of its tax credit for poverty-fighting charities.

As you may know, Congressman Kolbe and I have been working on this issue since the beginning of the 104th Congress, and we are pleased to have this opportunity to share our thoughts and experiences.

For the last 30 years, our country has taken a "bigger is better" approach to fighting poverty. We took functions that used to be handled by local government and community institutions and gave them to the Federal Government, but while well intentioned, this approach has been an abject failure. Despite spending the $5 trillion that my colleague, Congressman Watts, mentioned, our poverty rate is still as high today as when we started.

This week, Congress will put the finishing touches on legislation that trades "bigger is better" for a more decentralized method of providing assistance to low-income Americans. It will be a great first step. However, changing the way we provide help to individuals is only half the battle. We must also strengthen the civic institutions that are working from within to rebuild the stressed cities.

Small nonprofits run by those who live in the same community as the people they are helping are absolutely critical to Community Renewal. They treat assistance as a tool by which to change behavior, not as a right or a way of life. They stress personal responsibility and provide hands-on involvement. In short, they do what a government bureaucracy cannot do. They give compassion a human face.

However, unlike their large counterparts, these grassroots nonprofits lack the savvy grant writers necessary to tap into the stream of government dollars, and some of them rightly worry that the receipt of Federal money will force them to abandon the faith-based portion of their programs, but while they may lack bureaucratic sophistication, they more than make up for it in energy and devotion to their communities.

Currently, according to the Congressional Research Service, less than 10 percent of charitable giving in the United States goes to direct assistance to the poor. A charitable tax credit like the one included in the Talent-Watts package would increase the flow of resources and cause those grassroots charities to grow and flourish. Community leaders across the country will find themselves financially empowered and free of government regulations and mandates.

Equally as important, a tax credit would raise the public's awareness and the involvement in these kinds of organizations. While still imperfect, I can think of no better method of ensuring the prompt and efficient flow of services than giving millions of taxpayers a stake in the process.

I can think of no better weapon in the war on poverty than a greater public awareness of the problems at hand. We must begin the transition now, and a charitable tax credit, along with the other reforms embodied in the Talent-Watts proposal, is the best way to do it.

I thank the Chairman, and I yield to my colleague from Arizona, Congressman Kolbe.

[The prepared statement follows:]

STATEMENT OF HON. JOE KNOLLENBERG

I would first like to commend Chairman Cunningham and Shaw for joining efforts to hear testimony on H.R. 3467, "Saving our Children: The American Community Renewal Act of 1996."

I believe most of us here today would agree that we cannot do enough to renew the plight in our inner cities. Whether it is through incentives for businesses or expanding educational opportunities or creating an environment friendly for charitable contributions, it is important to remember that the federal government has not succeeded, in fact it has trapped the poor, limited initiative, stifled progress.

One particular provision in H.R. 3467 that I would like to call to the attention of both committees is the charitable tax credit. As early as January of 1995, Congressman Kolbe and myself introduced H.R. 2225, the "Choice in Welfare Tax Credit Act of 1995." It is our

belief that Charitable tax credit would restore the American tradition of neighbor helping neighbor. Both of us here today continue to believe this and are excited to see that this concept has been embraced by Congressman Watts and Talent in their legislation.

Under the current system, we send taxpayers dollars to washington to be tied up in ineffective programs and ideas. However, a charitable tax credit keeps the money out of washington, empowers individuals, replaces government as the guardian of the welfare state, and increases individual pride in communities.

Mr. Chairmen, there are those who argue an individual does not give because of the deductibility or tax credit. They give because they want to give. This may be true, however, through heightened awareness of such a credit coupled with other economic incentives, we believe the necessary funds will still exist to

help the poor.

Moreover, there are some facts we do know. For instance, for every dollar the federal receives from taxpayers and decides to spends on the poor, only 30 cents meets it target. In prior legislation, our charitable tax credit would limit charities to spend 30 percent on administrative cost. Thus, 70 percent will be directed toward the poor. It does not take a rocket scientist to figure out that 70 cents is leaps and bounds over the 30 cents the federal government provides to the poor. It is common sense and efficient to want increased participation by individuals and the private sector.

Second is the fact that of all the charitable giving, some $126 billion in 1994, under 10 percent is directed toward the poor. Any effort we can do to increase this amount, no matter how small, will directly benefit the poor, and that

certainly is the overwhelming intent of the charitable tax credit.

Third, after 30 years and over $5 trillion dollars, there are more AFDC recipients then ever. The federal government has not proven itself.

Again, it is my hope that we continue the debate on new and innovative ways to help our children and families. A charitable tax credit is such a proposal, and I look forward to working with Congressman Talent and Watts on crafting a Charitable tax credit provision acceptable to all.

Thank you for this opportunity, and I would like to yield the balance of my time to Congressman Kolbe.

Mr. GOODLING [presiding]. Mr. Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you, Mr. Chairman. I salute you and Mr. Shaw for holding this hearing. I particularly salute our colleagues, Representatives Talent and Watts, for their work in developing this Community Renewal Project.

As Congressman Knollenberg has explained, the charitable tax credit is a fairly simple idea we have been working on for a couple of years, but I think it is also revolutionary in the sense that it allows the American people to determine how and where their poverty relief dollars are going to be spent and how to spend them most effectively.

We do that because we have faith. We believe in the ability of individuals in communities to know what is working well and to reward private charities for doing what they traditionally have been doing best: providing prompt temporary assistance.

The charitable tax credit has been in progress for the past 2 years. We have remained dedicated to the underlying theme of transferring welfare programs back to the communities and individuals, but we have continued discussions with charitable and not-for-profit organizations to ensure that this legislation will not indirectly harm their work, particularly if they are in other fields than poverty work.

Let me take my remaining moment here to debunk many of the myths surrounding the charitable tax credits.

First, critics have said the charitable tax credit will reduce overall spending in welfare relief programs. This is not true. All economic evidence shows charitable contributions are a normal good. As the price goes down, the demand goes up. Additionally, study after study has found that the private sector can deliver virtually any service in a more effective and cost-efficient manner than the government.

Second, it is charged that the 100-percent credit will increase fraud and abuse in charitable giving and the creation of charitable organizations. There is no reason to think fraud and abuse statutes that currently affect 501(c)(3)s would be different for charitable organizations as part of the charitable tax credit. Anyone who does not follow the law is subject to criminal prosecution that could result in stiff fines, imprisonment, as well as revocation of their 501(c)(3) status.

Last, charitable organizations have expressed concerns regarding paperwork requirements for charitable filing. In consultation with the charitable community, the tax credit legislation comports with the current reporting requirements by modeling IRS form 990. This legislation tries to minimize the amount of paperwork for the charity while still ensuring accountability. For most nonprofits, no additional paperwork would be required. Churches would have to file a 990 form, but only for their qualifying poverty program, and most would be able to file the EZ form.

Americans need to become personally involved in reforming the welfare system. Let us give taxpayers a role in providing assist-

ance, while giving charities the opportunity to compete for welfare dollars in a truly competitive atmosphere.

You will hear today from many of those who work directly in the community and have seen more examples of success than failure. It is these organizations that understand the true needs of their communities and the individuals that reside in them. I think we have a unique opportunity with the Community Renewal Project to help rebuild low-income communities through moral renewal and economic opportunity.

Mr. Chairman, if there is any reason why this legislation should be given serious and prompt consideration, it is the people sitting behind me, in front of you, who really represent the future of this country, and they are here today because they know what a difference this can make in their communities.

Thank you, Mr. Chairman.

[The prepared statement follows:]

JIM KOLBE
5TH DISTRICT, ARIZONA

COMMITTEE ON
APPROPRIATIONS

SUBCOMMITTEE ON
INTERIOR

SUBCOMMITTEE ON
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Testimony by
The Honorable Jim Kolbe (5th-AZ)
Committees on the Ways and Means and
Economic and Educational Opportunities

July 30, 1996

Thank you, Mr. Chairman, for conducting this joint hearing on the Community Renewal Project introduced by our colleagues Reps. Talent and Watts. I applaud the work done by the two lead sponsors of Community Renewal Project, and am pleased that Rep. Knollenberg and I have been able to join in their efforts.

The recent passage of the welfare reform bill takes the first step toward reform of the welfare system. We believe it is not only possible, but sensible, to turn the administration of the welfare system to the states. This flexibility is critical to allowing states to test assistance programs best suited to their needs.

We believe, however, that the debate should be taken a step further. As Congressman Knollenberg explained, the charitable tax credit allows the American people to determine where their poverty-relief dollars are spent the most effectively. We have faith in the ability of individuals who are in the communities to know what is working well and we reward private charities for doing what they have traditionally done best, and that is to provide prompt temporary assistance.

The charitable tax credit has been a work in progress over the past two years. We have remained dedicated to the underlying theme of transferring welfare programs back to the communities and individuals, but have continued discussions with charitable and not-for-profit organizations to ensure this legislation will not indirectly harm their work. I want to take my remaining minute to extinguish many of the myths surrounding the charitable tax credit.

First, critics have stated that the charitable tax credit will reduce overall spending in welfare relief programs. Not true. All economic evidence shows that charitable contributions are a normal good. As the price goes down the demand goes up. Additionally, study after study have found that the private sector can deliver virtually any service in a more effective and cost-efficient manner.

Second, it is charged that an 100% credit will increase fraud and abuse in charitable giving and in the creation of charitable organizations. But there is no reason to think the fraud and abuse statues that currently affect 501(c)(3)s would be different for charitable organizations as part of the

charitable tax credit. Anyone who does not follow the law is subject to criminal prosecution that could result in stiff fines, imprisonment, as well as revocation of 501(c)(3) status.

And lastly, charitable organizations have expressed concern regarding paperwork requirements for charitable filing. In consultation with the charitable community the tax credit legislation comports with the current reporting requirements by modeling IRS Form 990. This legislation tries to minimize the amount of paperwork for the charity while still ensuring accountability. For most nonprofits no additional paperwork would be required. Churches will have to file a 990 Form but only for their qualifying poverty program and most will be able to file the EZ form.

Americans need to become personally involved in reforming the welfare system. Let's allow taxpayers a role in providing assistance, while giving charities the opportunity to compete for welfare dollars in a true competitive atmosphere. You will hear today from many of those who work directly in the community and have seen more success than failure. It is these organizations that understand the true needs of their communities and the individuals that reside in them. I feel we have an unique opportunity with the Community Renewal project to rebuild low-income communities through moral renewal and economic opportunity.

Mr. GOODLING. Mr. Scott.

STATEMENT OF HON. ROBERT C. SCOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. SCOTT. Thank you, Mr. Chairman, Ranking Members, and Members of the Subcommittees. I want to thank you for the opportunity to appear before you today to address both Subcommittees on H.R. 3467. I want to focus my comments on two provisions in the bill, title IV involving vouchers and title III on substance abuse.

Any education reform proposal we consider, we should seek to enhance the educational experience of our children. The challenge we face is to squeeze all of the resources we can out of our annual budgets for education and use that money as wisely and productively as possible.

In October of last year, the Education Committee held a field hearing in the City of Milwaukee to examine that city's experience with its voucher program. At that hearing, we heard testimony about the voucher programs and how we can give a few families better access to schools, but we did not hear enough about the effect of those programs on those who are left behind.

We found that Milwaukee's voucher program, serving 7,000 students, cost $21 million. That is $3,000 per voucher. If you had used the $21 million for all 100,000 students in the Milwaukee school system, that would have been about $4,000 to $5,000 extra per classroom. Although there was significant satisfaction with the program expressed by those who had received the vouchers, the evidence remained inconclusive as to whether the program significantly improved the education of its participants, but there is no question that diverting $4,000 to $5,000 per classroom cannot help the 93 percent who are left behind.

The Milwaukee voucher program is limited to low-income students at this time, and H.R. 3467 includes a similar limitation. We should not, however, ignore the political reality and suggest that these limitations will be permanent. As more and more students desert the public schools, more and more parents will demand the vouchers so their children can also escape.

Furthermore, out of 140,000 school-aged children in Milwaukee, 40,000 already attend private schools, and their parents can certainly be expected to demand tuition assistance. Once vouchers become commonplace and the public schools become worse than they are now, those demanding the vouchers will represent a much more powerful constituency than those left behind in the public schools. So the pressure on school budgets will be for more vouchers, not improving the public schools.

The effect could be devastating if all 40,000 students now in private schools in Milwaukee received a $3,000 voucher. The cost would be $120 million, or approximately $20,000 to $25,000 per classroom.

H.R. 3467 not only fails to assist most students, it also insulates private schools from fundamental equal protection laws in the area of civil rights. Since H.R. 3467 only prohibits private schools from discriminating based on race, a private school receiving public moneys could discriminate based on gender, religion, and disability,

and it is not clear whether this bill would also allow the schools to discriminate on the basis of national origin.

This provision should also be considered in the light of many studies of voucher programs already showing that school choice programs generally have the result of more racial segregation.

Furthermore, as private schools continue to be able to discriminate based on a student's academic record and behavior, the public schools would be relegated in trying to educate the most difficult students, including the disabled, with less public support. I think we can all agree public schools are not doing as good a job as they should, but the answer to this should be to provide more resources, not less.

Similar to the school voucher provision, title III of H.R. 3467 presents considerable public policy and constitutional issues. Under title III, pervasively sectarian institutions, including churches and other houses of worship, would receive Federal funds to administer substance abuse programs on behalf of the government.

Under current law, religiously affiliated organizations, such as Catholic Charities and Salvation Army, are generally permitted to provide social services with government funds, so long as they are not sectarian or religiously discriminatory.

H.R. 3467 allows providers to require program participants to, and I quote from the bill, ". . . actively participate in religious practice, worship, and instruction; and to follow the rules of behavior [of the religious provider] that are religious in content or origin . . . ."

Mr. Chairman, since the government officials cannot declare one religion valid and another invalid, I would only ask what would happen if the late David Koresh had run a drug program. How would the government declare his religion invalid and deny his followers the benefit of government funds?

Mr. Chairman, neither the voucher nor the substance abuse provision represents sound public policy, nor addresses the real problems of improving quality education or expanding substance abuse treatments to those most in need. We should look for effective means of reform without violating the Constitution by benefiting the few to the detriment of many.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Remarks of Rep. Robert C. Scott
Joint Hearing on H.R. 3467
"The American Community Renewal Act"
July 30, 1996

I want to thank you for the opportunity to appear before you today to address both subcommittees on H.R. 3467, "The American Community Renewal Act". I want to focus my comments on two provisions in this bill- Title IV involving vouchers and Title III on substance abuse. As a member of both the Economic and Educational Opportunities Committee and the Judiciary Committee, I have concerns that this bill threatens not only efforts to ensure that ALL children are educated but also the equal protection clause and the wall between church and state.

Any education reform proposal we consider should seek to enhance the educational experience for all children. It certainly should not support the exclusion of certain groups of children. The challenge we face is to squeeze all of the resources we can out of our annual budgets for education and to use that money as wisely and productively as possible.

In October of last year, the Education Committee held a field hearing in the city of Milwaukee to examine that city's experience with its voucher program. In that hearing, we heard testimony about voucher programs and how we can give a few families access to better schools, but we did not hear enough about the effect of these programs on the students who are left behind.

We found that Milwaukee's voucher program, serving 7000 students, cost $21 million. That's $3,000 dollars per voucher. If you had used the $21 million for all 100,000 students in the Milwaukee school system, that would be $4000 to $5000 per classroom. Although there was significant satisfaction with the program expressed by those who had received the vouchers, the evidence remains inconclusive as to whether the program significantly improved the education of its participants. There is no question, however, that diverting $4,000 to $5,000 per classroom cannot help the 93% students left behind.

The Milwaukee voucher program is limited to low income students at this time and H.R. 3467 includes a similar limitation. We should not, however, ignore political reality and suggest that this limitation will be permanent: as more and more students desert the public schools, more and more parents will demand vouchers, so their children can also escape. Furthermore, out of 140,000 school-aged children in Milwaukee, 40,000 already attend private schools - and their parents can certainly be expected to demand tuition assistance. Once vouchers become commonplace and the public schools become worse than they are now, those demanding vouchers will represent a much more powerful constituency than those left behind in the public schools, so the pressure on school budgets will be for more vouchers, not improved public schools. The effect could be devastating: if all 40,000 students now in private schools in Milwaukee received a $3,000 voucher, the cost would be $120,000,000 or approximately $20,000 to $25,000 per classroom.

H.R. 3467 not only fails to assist most children, it also insulates private schools from fundamental equal protection laws in the area of civil rights. It does so by explicitly stating that government assistance in the form of scholarships or transportation assistance does not constitute Federal aid to a participating choice school. Therefore, the government may not regulate beyond those statues cited in the legislation. Since H.R. 3467 only prohibits private schools from discriminating based on race, a private school receiving public monies may discriminate based on gender, religion, and disability, and it is

not clear if this bill would allow schools to discriminate on the basis of national origin. This provision should also be considered in the light of many studies of voucher programs that already show that school choice programs generally have the result of more racial segregation.

Furthermore, as private schools will continue to be able to discriminate based on a student's academic record and behavior, the public schools will be relegated to trying to educate the most difficult students, including the disabled, with less public support. I think we all can agree that the public schools are not doing as good a job as they should; but the answer to this should be to provide MORE resources, not LESS.

Similar to the school voucher provision, Title III of H.R. 3467 (relating to substance abuse programs) presents considerable policy and constitutional issues. Under Title III, pervasively sectarian institutions, including churches and other houses of worship, would receive federal funding to administer substance abuse benefits on behalf of the government. Under current law, religiously affiliated organizations, such as Catholic Charities and the Salvation Army, are generally permitted to provide social services with government funds, so long as they are not sectarian or religiously discriminatory.

H.R. 3467 allows providers to require program participants to "...actively participate in religious practice, worship, and instruction; and to follow rules of behavior [of the religious provider] that are religious in content or origin..." (from bill language). Therefore, H.R. 3467 as written would authorize the use of taxpayer dollars to directly coerce government beneficiaries to practice certain religious beliefs.

Proponents suggests that there is no Establishment issue because participants choose to participate or not. But H.R. 3467 fails to adequately provide for alternative services. Nor does it provide participants with notice that they have a right to seek other non-religious services.

Putting aside the constitutional implications of this, there are practical consequences of this policy as well. Since government officials cannot declare one religion valid and another one not, I would ask if the late David Koresh ran a drug abuse program, how would the government declare his religion invalid and deny his followers the benefit of government funds.

The voucher and substance abuse provisions represent poor public policy: they fail to address the real problems of improving the quality of our children's education and expanding substance abuse treatments to those most in need. We should look for effective means of reform without violating the Constitution or benefitting the few to the detriment of the many.

Mr. GOODLING. Mr. Talent.

Mr. TALENT. I thank the Chairman. We have other panels waiting. I appreciate the comments of my colleagues.

Let me just make a point to my friend, Mr. Scott, if I could, particularly with regard to the school choice provisions.

Here is what I can't get around, and I understand the sensitivity of people concerned about the existing establishments. I want to move with as much delicacy and with regard to that sensitivity as I can, but what I can't get around is what we have is just incontrovertible that in many of the most distressed neighborhoods around the country, the local public schools are, for one reason or another, simply failing to educate the kids adequately.

We know we can't renew these neighborhoods without a comprehensive approach. That includes jobs, home ownership, and schools. We know that in order for kids in these neighborhoods to have equal opportunities, they must attend good schools. We know there are schools that are succeeding and that people of middle or higher level incomes have access to them.

It is just hard for me to get around the very simple point that if we can provide access to this kind of education to these kids, then we ought to do it. We can't just let another generation go.

I wish we could solve the overall problem overnight as well, but I don't see that happening.

You mentioned taking funds away from the public schools. This bill is a scholarship rather than a voucher in the sense that it is new money. In other words, there would be no money taken away from the kids in public schools, and I wonder if that might make a difference for you.

In other words, the downside for the public school is that it had 25 kids in the class before and now it has 22 kids and the same amount of money. It would seem to me, if anything, this makes it easier for them to accomplish their goals.

Would that make any difference to you?

Mr. SCOTT. If you are going to put new money in education, the question is whether or not it would be better spent on vouchers or on the public schools themselves.

As I indicated, the voucher program in Milwaukee costs approximately $4,000 to $5,000 per classroom. If you are going to put $21 million into the system, it seems to me that that would be a better place to put it.

The people that are getting away are the most able students, the ones whose parents are most involved, and the ones that are left behind are the ones that need the most help.

My view is, if you are going to spend $21 million more on education, it should be spent to improve the situation.

We can agree the schools in inner cities are not doing the job they ought to do. If we have $21 million more to apply for it, my view is it ought to be applied to those schools and not giving a few students a better education and relegating the rest to a worse education than they are getting that we all agree is bad.

Mr. TALENT. Mr. Chairman, I appreciate my friend's comments and the work he has done in this area. We are all groping for the right solution.

I just want to note for the record that in Milwaukee, choice schools provide education. Here is a figure; for example, about $3,000 per child; compared to the public schools, about $7,000. I don't know that the evidence really indicates the kids going to these schools are harder kids to educate.

The verdict—in a lot of respects—is not in. I will grant the gentleman that. I think the parents are happy with the program, with its results. It seems to me this is something, a direction that would be promising for us to pursue.

I will just say that for the record, and I thank the Chairman for the opportunity.

Mr. SCOTT. Mr. Chairman, could I respond for about 10 seconds on that?

Mr. TALENT. I cut the gentleman off.

Mr. SCOTT. Many of the private schools are subsidized by church and others. So the dollar-to-dollar comparison, I think, needs to be looked at closely.

Thank you, Mr. Chairman.

Chairman SHAW [presiding]. Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman.

To Representative Watts, I have a serious question about how vouchers for students with disabilities would be calculated. Our Subcommittee has jurisdiction over that, and your bill seems to base the voucher on the average per-pupil cost associated with children with the same needs or handicaps.

Does that mean whatever entity the community creates will develop sort of a list for each disability and the average educational and health care cost associated with that disability? If that is the case, I believe it would directly contravene the intent of IDEA, which is based upon meeting the individual needs of disabled children.

How would you calculate the value of that voucher for the disabled student going to the school of choice?

Mr. WATTS. Mr. Kildee, before I answer that question, let me say this. It has been mentioned, and we all have our reasons for supporting voucher systems or not supporting the voucher systems, and you shared your thoughts in your opening statement. Mr. Scott has shared his thoughts today.

Kids in public schools today feel they are being discriminated against, for race, gender, religion, or for whatever reason.

Public schoolteachers are strapped by regulations that the NEA fights for, that the Department of Education fights for, that hinder their ability to teach and discipline and do the things that they need to do to prepare our kids to compete in a global marketplace and making sure they can read, write, and do arithmetic.

We have kids in inner cities, in poor communities, who are forced to go to schools where they carry guns and knives and have to walk through metal detectors, and we ask them to learn in that type of environment. It baffles me that we sit here and continue to defend that system.

I am not painting it with a broad brush and saying all public schools are bad.

Mr. KILDEE. May I clarify my question?

Mr. WATTS. As I said, before I answer the question, I wanted to share that. I am not painting with a broad brush and saying all public education systems are bad because they are not, but we do have kids, especially our poor kids, who are trapped in that system.

Concerning how the voucher systems work with certain disabilities, we use the same educational standards for private schools within that locality that existed as of January 1, 1996. There is no discrimination or no rules in place today that says we cannot create the type of formula that would allow or would make sure a student is taken care of if their parents send them to a private school.

Mr. KILDEE. The question is, Who would determine how much that voucher would be worth in order to meet the necessities of the IEP, which is agreed upon with a parent?

Take, for example, Down's syndrome. Within Down's syndrome, there is a gradation of need, both educational and health care needs. How would you determine how much the voucher would be if a student transfers from Jefferson High School to St. Mary's High School? How would you determine the value of the voucher needed to take care of both the health and educational needs of that student, and who would determine that?

Mr. WATTS. Mr. Kildee, in H.R. 3467 and the bill itself, if you turn over to page 115, you will see that the value of each scholarship is defined there. The renewal community shall determine the value of scholarships provided each semester within the renewal community, except that the value of a scholarship provided for a renewal community shall not be less than the minimum value specified in paragraph 1 and shall not exceed the maximum value specified in paragraph 2. That is spelled out in the bill itself.

Concerning disability, if a student has a disability, the average per-pupil cost per semester in the public school system or systems in the renewal community in the preceding year shall be calculated using the same cost for students with the same special needs or handicap category for such period of time. That is defined in the bill on pages 115 and 116.

Mr. KILDEE. I would like to work with you more to make sure that it is coordinated well with IDEA, which we just reauthorized again this year. The IEP is an essential part of IDEA, and I would like to work with you to make sure that we don't damage that important centerpiece of the law.

Mr. WATTS. I would be delighted.

Mr. KILDEE. Thank you.

Chairman SHAW. Mr. Goodling.

Mr. GOODLING. First of all, I want to thank you for bringing the legislation before the Congress, not because I think it is perfect legislation, but you are causing the Congress to do a little thinking.

I have served on the Education Committee for 20 years, and the only concern was if we only had more money, we could cover more children. My question was always, Cover them with what? If you are not covering them with excellence, then you are smothering them, and above all, don't smother them.

Education reform is just like welfare reform. We couldn't truly reform welfare until we admitted on both sides of the aisles that what we had done in the past was wrong. If we can do the same here, I think we can bring about legislation that will be beneficial.

Let me caution you in one area, and I come from a totally different perspective as those who lobby for public education and from those in the Congress who support those who lobby for public education.

I think the only way you can have choice is through the Tax Code, and I say that because I am thoroughly convinced that in my lifetime if you go a choice route, and include private and parochial schools, then you will destroy private and parochial schools. Private and parochial schools, in my estimation, would be required to accept all students who wish to attend. They would keep all students who wish to come, just as the public school must. They would receive all of the mandates from the Federal Government and the State government, and they would be destroyed as a private or parochial school. That is my opinion, and I think I will live to see that if we move that way without going through the Tax Code.

I think it can be done through the Tax Code without getting into that kind of situation. I caution you to look carefully at how you do that because I believe in the long run, you destroy private and parochial schools unless it is done through the Tax Code.

Thank you, Mr. Chairman.

Chairman SHAW. Mr. Blumenauer, do you have any questions?

Mr. BLUMENAUER. No.

Chairman SHAW. Taking you in the order that you arrived, you have no questions.

Mr. Fattah.

Mr. FATTAH. Let me ask a quick question to my colleague. First, let me thank you for your interest in these matters and your effort, Congressman Watts, but a quick question just by glancing at this issue on school choice.

I note that the bill makes these scholarships available for alternative schools and charter schools, religious schools. It does not mention how they would relate to home schooling which is an important issue. Would these scholarships be available for home schools?

Mr. WATTS. Home schools have not been addressed in this legislation.

Mr. FATTAH. They would not be available, then, under this drafting of the bill?

Mr. WATTS. No.

Mr. FATTAH. OK, thank you.

Congressman Scott, you made a number of points. Congress is an interesting place. It is hard to follow some of the seemingly contradictory focuses of our work. When we talk about defense spending, for instance, there is a need to strengthen defense, and when we say strengthen it, we give more money to it. When we talk about protecting veterans, we put more money in. When we say we want to deal with the problems of education, we seem to think that everything other than money is what is needed.

Money is not going to solve all of the problems at hand, but it is of note that if we wanted to look at low-income communities, both in urban or rural areas in our country, and look at a government service that was not being adequately effective, I don't think we would stop at schools. Police departments have not proven to

be able to make these communities safe, but we spend more and more money at it.

It would seem that the logic that would flow from the school choice is that we could take, for instance, people who didn't think they were being adequately protected by the police department and give them a scholarship or voucher, let them hire a private security firm or get a burglar alarm.

What happens as you take away from these common goods, whether they are police services, fire services, or school services, you do, in fact, create a situation where there are fewer resources available, whether they are new, resources that are being diverted, or whether they are resources that exist that are being diverted, but I think you have said in your comments that you have a concern about the resource side of this.

I would like you to speak to the other side of this, which is not the money side, but one of the things public education has accomplished in this country, notwithstanding all of the criticisms of it, is it has been the vehicle by which the United States, since its work in this area has tried to forge a society in which people can get along, develop the social skills, develop the kind of fabric of a community that you will not have if you have people proceeding along 1,000 different paths.

You talk about the whole definition of religious schools. I mean, there could be, beyond the mainstream religious efforts in our country, any number of entities that could be established or promoted through the use of these scholarship dollars that could work at cross-purposes, perhaps, to the whole notion of community.

So I would be interested in your comments.

Mr. SCOTT. I think what you pointed to is what your vision of the future is and where public schools fit in, and I think you have pointed to a lot of the points I would have said, whether we want an integrated society or a segregated society. All of the evidence says that we have private school choice. People tend to pick with a racially polarized view.

The common experience, the joint culture, people growing up together, I think, is very valuable for the country.

Whatever happens with this bill, the gentleman from Oklahoma said people will benefit, but the fact is, 95 percent will be left behind with whatever is left in the public schools without the public support, maybe only 90 percent, maybe only 70 percent. The vast majority will have to go to the schools that are left.

You drain the public schools of a lot of the value of the common culture, people coming together. We have a multicultural society. I think there is significant value in people going to public schools together.

Mr. FATTAH. What about the issue of the local government which runs these schools that are in the business of providing public goods, whether it is public safety or public education?

As you move people away from the notion of these public goods to private choices as individuals that people would make with or without additional resources, how do we keep local communities moving in some notion of collective good for the entire community?

Mr. SCOTT. I think one of the things you can't ignore is the political support for public schools, the fact that everyone relies on the

public schools, everybody supports the public schools. To the extent most of the people now would be in private schools, would be choosing and taking the vouchers, the support for public schools would diminish, and as bad as they are now, there is no question in my mind they would be worse.

All of the political pressure would be against public schools, in favor of more and more expensive vouchers.

Mr. FATTAH. Thank you, Mr. Chairman.

Chairman SHAW. Mr. English.

Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

I suppose education is about the biggest political football that exists in this country because everybody who runs for public office is in favor of education.

I am reminded of, back in the Bush administration, when he came forward with his proposal on education and he wanted to be known as the educational President. I was in the Georgia State Senate at the time and became pen pals with part of his staff because I immediately wrote and called and suggested that if President Bush wanted to go down in history as the educational President, then at the Federal level we put our moneys where our rhetoric is. We should send these funds down to the State and local governments to use for educational purposes. We must cut the Federal strings that are attached to Federal funds and allow the State and local governments the flexibility to use those funds as they best see fit, so they can use it for educating students and not as a political football.

Also, many of the local systems don't have the tax base they need at the local level to support education as well as they should. I come from a rural county in Georgia, have been a county commissioner, and have levied taxes at the local level. I know the resistance to taxation based on the property tax digest.

I want to further state, Mr. Chairman, that if we are going to have a successful welfare program—which we are all debating and have been debating now for several months in this Congress—we are going to have to have some tax reform. Tax reform that will encourage the investment, encourage and stimulate the economy in the private sector to increase the number of jobs. If we are going to successfully remove people from welfare roles, we must have the payrolls available to move them to.

I appreciate the fact that our colleagues have come forth with a bill that will have some tax reform, will encourage investments in certain areas, and will develop a tax base in a lot of our inner cities if we follow through with this type of legislation, maybe not exactly as this has been written, but in this area and with this focus. It will not only create jobs in the inner cities, giving the people more opportunities, but it will also create a stronger tax base, so that local governments can have more funds at the local level to access for the purpose of education.

So I just say that and appreciate the fact that you all have come forth with this, and hopefully we will be successful. I think, based on the trend of legislation and the passage of legislation in this town in the last 18 months or so, we are and will be heading in

the right direction toward education and toward job creation at the local level and especially in our inner-city areas.

Thank you, Mr. Chairman.

Chairman SHAW. Mr. English.

Mr. ENGLISH. Thank you, Mr. Chairman.

I would simply like to thank my colleagues for coming here to testify. I think they have come to this hearing with an agenda of issues that offer a real alternative vision for how to revitalize our inner-city communities and to build the jobs base and revitalize neighborhoods without creating bureaucratic and inherently inflexible programs.

I want to congratulate them, and I appreciate very much their efforts to offer an alternative agenda for addressing many of our urban problems.

Thank you, Mr. Chairman.

Chairman SHAW. Mr. Sawyer.

Mr. SAWYER. Thank you, Mr. Chairman. I want to thank you and Mr. Cunningham for conducting this hearing and to thank our colleagues for bringing this legislation before us.

It is not the first time that our Subcommittee has confronted the question of the many choice mechanisms that are currently a part of the public debate all across the country and the many forms they take.

Education policy should be a matter of broad public debate, but it seems important that educators and the public alike guard against taking untested ideas and using the most critical years of children's actual lives for undocumented experimentation. That is not to say that we shouldn't try new things.

In the State of Ohio, there is a great deal that is being done in terms of both the planned and, I suspect, unplanned driving of dollars to nonpublic schools. On the one hand, the State legislature has proposed to use the city schools of Cleveland, Ohio, for an experiment in choice. On the other hand, in a way that is a surprise to many people, Ohio last year distributed $136 million of State money to private schools at $599 per pupil. Ohio pours more money into private educational institutions than any other State.

Those State dollars last year would have been enough to have maintained the solvency of every school district that slipped into the State's emergency fund last year.

It is ironic that in the very year that Ohio spent $136 million on private schools, the GAO concluded that our State's school buildings have deteriorated to the point where they are the worst in the country. The problems include all of the things that you can imagine—faulty wiring, leaky roofs, and structural decay.

At the same time all of this is going on, since 1990, we find that Ohio has spent $209 million to repair its school districts, and during that same time, it has directed $509 million to private schools.

The fact is, this debate about choice is about broader issues, and if we are going to undertake it, it seems to me we must undertake it in a coherent way.

Last year, our colleagues, Mr. Weldon and Mr. Riggs, introduced legislation to attempt to undertake a learning process about various choice structures and provided that modest test with a commitment that we would share in bringing a level of accountability

to it. While I share in the views of my colleagues, Mr. Goodling and Mr. Kildee, in general, I also think if we are going to conduct a test of this kind, we must have a level of accountability that is rigorous.

To quote Bruce Fuller of Harvard University, "The school choice movement is wide and robust, but actual choice experiments remain young and modest. Clearly, there is a need for more robust evaluation."

While I don't intend to go through the entire range of evaluative tools that I think are important to bring to this much broader-based experiment that is proposed here, just let me suggest that any measure that doesn't look at before and after testing in terms of the results of student performance and the geographic mobility of students, the effective choice on neighborhood schools, the consequences in terms of the long-term supply of schools and slots in classrooms and of the consequences on the overall system of education to all students, both those in a choice program and those not, really fails to undertake the kind of understanding that we would need to go to the level of expenditure that is contemplated in this bill.

As I understand it, this measure would have two evaluations, after 2 and 4 years and would expand this program from $200 million to $400 million to $500 million to $1 billion to $2.5 billion, successively. That may be appropriate, but only if we understand the consequences of the lessons.

So, for my part here today, rather than ask questions, let me pledge my commitment, as I did to my friends on the Subcommittee, to work with the sponsor of this legislation to come forward with an appropriate valuative mechanism if any of this is thought in terms of enactment.

The debate is healthy. I think we ought to undertake it, and I hope the debate can be far reaching and in depth so that we don't make mistakes in the lives of children.

I yield back the balance of my time.

Thank you, Mr. Chairman.

Chairman CUNNINGHAM [presiding]. Thank you.

I would make just a couple of brief comments, and then I would yield to my friend, Mr. Johnson.

I support school choice, but I have some concerns. First of all, many people have supported alternative types of education. For example, charter schools. When they first came up, there was a lot of fighting against them, but I think they have proven to be very, very good programs.

Some folks have gone off with alternative school systems of just home schooling, and I look at Wisconsin and New Jersey and I know those work fairly well, but I have some concerns; for example, transportation or if you have students that aren't scoring very well at a poverty level when they are put into a position, will that school have to take that child when they are trying to build up their ratings to compete with other schools and so on? I think transportation is probably the biggest concern.

I think there are many areas where school choice would work. I don't know, and I am being honest, being a supporter of choice, that it would work in all situations. I think we need to look very,

very carefully, so that we don't damage the public school systems before we get into it. Those are my main concerns.

I would yield to Mr. Watts.

Mr. WATTS. Mr. Chairman, thank you.

I would like to address your comments. I agree with you. I think we need to consider what the debate is. Mr. Sawyer made an excellent comment in saying that education is more than just money. Money is a critical element, but it is about more than that. I think the real thrust behind education is excellence to make sure our kids can read, write, and do arithmetic, to prepare them to compete in a global marketplace.

There are poor kids in many parts of the country. It doesn't matter in this world if they are from a poor community. If they can't read, write, and do arithmetic, they are going to be left out.

We talk about public education as far as trying to fund public education. The dollars that come from this program will not be the sole source of funding for a private school, just like the public dollars that a public institution receives for education are not the sole source of their funding.

I have done many fundraisers for educational foundations in the State of Oklahoma.

Chairman CUNNINGHAM. Can I interrupt to ask the gentleman a question?

Mr. WATTS. Yes.

Chairman CUNNINGHAM. Would that private school be forced to take a low-income minority child that wasn't doing very well?

Mr. WATTS. Before?

Chairman CUNNINGHAM. Yes, that was making Ds or Fs and you wanted that child to go into a private system to get a better education. Would that school be required under your envision to take that child?

Mr. WATTS. Yes, they would.

Again, this is not an indictment on the entire public education system. There are good public schools out there that work. There are good public school teachers out there who want to teach. There are good public school principals out there who want to administer. They want to do all the necessary things so we can get the results we all want.

In a town meeting once I had a gentleman stand up who was a public schoolteacher. My sister is a public schoolteacher. She is a special education teacher, bless her heart. She has a difficult challenge, and I think God has a special place in heaven for those special education teachers who commit their lives to making sure those kids are getting the tools they need to survive.

This man stood up and said to me, "Mr. Watts, you are on record as supporting the voucher system." I said, "Yes, sir." He said,

> Well, tell me this. If you support voucher systems, I would just hope you would understand that we as public schoolteachers have different restrictions on us than the private schoolteachers do.

I said,

> Sir, that is the point. That is the very point. I want those restrictions taken off of you. I mean, we have got to have safeguards, no question about that, but I want those restrictions taken off of you that you can teach and you can do what you do best.

I am not an educator. I don't even claim to do that, but I have five wonderful, healthy, vibrant children, and I want them to be given every opportunity they possibly can to be educated properly.

Our poor kids, it is the poor kids in these inner cities who suffer from poor education and a lack if opportunities. They have to go to school. They have to go to school every morning and walk through metal detectors, and kids carry guns and knives, but they can't get out of that system. They can't get out of it.

We would say that no, no, no, we don't want them to have the opportunity to go somewhere. We have had an opportunity to do something about this. We have had an opportunity to look at this situation before, and nothing has been done to this point. We keep saying we need more money, we need more money, and we need more money.

Sure, we need to be adequately funded, but funding is not all that the education is made of.

Chairman CUNNINGHAM. I see my time has expired.

Thank you.

Chairman SHAW [presiding]. Mr. Johnson.

Mr. Weldon.

Mr. WELDON. I thank the Chairman, and for the sake of time, I will just make a few general comments and yield back the balance of my time.

I very much thank J.C. Watts of Oklahoma and Mr. Talent for the hard work they have done with this legislation.

The reason I support this legislation is probably too long for me to include in a 5-minute comment, but let me just mention the two hot-button issues that are raising the most concern from the Democrats regarding the issue of vouchers. My intent in supporting this legislation is very, very simple.

Upper middle class and upper class families have been escaping the failing public school systems because, very simply, they have the money to do so. The intent here is to give poor people the same kind of abilities that these more wealthy families enjoy.

Those families engage in accountability. There have been issues raised by some Members about concern for accountability. The parents who take their children and put them in private schools hold those schools accountable. What we are trying to do is give poor families that same authority and ability.

Regarding the faith-based drug treatment centers, I have some experience in treating drug addicts. As a physician, I frequently got involved in taking care of them. The track record of success in keeping particularly young people off of drugs in the nonfaith-based programs is poor, and that is where we are pumping our money.

The faith-based programs are better. They are not 100 percent, but they are better. What we are talking about is putting our money in a system that works better.

Indeed, I have spoken to judges who will only relegate some teenaged drug abusers into these faith-based programs because they have learned from their experience that these are the only systems that work, and that is what we are trying to be about here, trying to find real solutions that work.

Mr. TALENT. Would the gentleman yield?

Mr. WELDON. I would be happy to yield.

Mr. TALENT. It is just for a comment.

I think what the gentleman said is worth emphasizing. All of these arguments against the scholarship program, for example, the public goods arguments, they don't mention the fact that people with the means to do so are, as Mr. Scott said, escaping. That is the word he used.

So what we leave is for the children of the poor to hold down the fort in schools that we all acknowledge are seriously flawed.

Mr. FATTAH. Would the gentleman yield for 1 second?

Mr. TALENT. It is the gentleman's time, but when I am finished, if he wants to, that is fine.

They are the ones left there, and we just keep coming back to that hard reality that all of these arguments just don't deal with arguments made if we put this money into public schools.

Over the years, we have increased spending geometrically on all levels of government into those schools, and they are not succeeding. In fact, they are failing. Again, everyone admits that. I don't know if there is any empirical evidence to suggest a relationship between the amount of money we are spending at this level and the performance of those schools.

This is an alternative which we have reason to believe will work for these kids. It is working for other people who have the means to take advantage of it. To me, to say that we are going to keep casting about trying to find some overall solution while these kids continue and not to get the education that they need, it shows, although certainly not intended, a kind of insensitivity to their situation.

I thank the gentleman for yielding.

Mr. WELDON. I would like to yield back the balance of my time.

Chairman SHAW. Mr. Kildee had an additional question.

Mr. KILDEE. Thank you, Mr. Chairman.

Mr. Watts, section 408 of your bill, page 118, reads,

> Eligible children whose parents have applied to receive a scholarship under this title shall be subject to the admission criteria of each scholarship school or alternative public school, and nothing in this title shall be construed to guarantee the right of an eligible child to attend any scholarship school or alternative public school.

Isn't that cherrypicking? Can't they pick the ones they want and even maybe go out and recruit or advertise? It seems to me that language is exactly cherrypicking. Would you comment on that?

Mr. WATTS. Would you repeat your question again?

Mr. KILDEE. My statement is that that seems to be cherrypicking. Here is an eligible student, but that alternative public school or scholarship school can turn that person down. It would seem to me that that school is then going to be cherrypicking and picking those whom they want to come to their school and tell the others they can't come to their school.

Mr. WATTS. Mr. Kildee, I guess that is one way to look at it. However, if you have a qualified student, why would that student not be admitted to the alternative school or to the private school?

Mr. KILDEE. I can think of a hundred reasons. I taught school for 10 years. I had some students who very often I was tempted to

wish they would drop out. But in a public school, that is not an option.

Mr. WATTS. I don't think that a student qualifies necessarily for a school on academic requirements alone. That is why you have charter schools. That is why you have alternative schools.

I have spoken in many of those alternative schools, and what the public schools have done, they have sent certain students to different schools to try and create a certain set of circumstances for those children to be able to learn and to be educated. The public school does that today.

Mr. KILDEE. Why did you put that language in there? What is the purpose of the language? It gives the receiving school the ability to say no to a student who applies for admission there.

Mr. WATTS. Why do public schools say no to those kids that they send to different educational institutions?

Mr. KILDEE. The public school has to take the students in that school district.

In Flint, Michigan, the Flint Board of Education has to take the students who live in Flint. Here you are saying the scholarship school does not have to take a student applying.

Let me give you an example. You have students applying for this scholarship school, you have students who are all A students with a good record of conduct, and you have students who are all D students with maybe some behavioral problems. It seems to me the receiving school is going to be cherrypicking by your language here.

Mr. WATTS. Well, not every school.

There is a school in Oklahoma City. It is an advanced science and math school. It is a public entity for special students. Not every student that applies at that school can get in. That is the same difference.

Mr. KILDEE. All right. What happens?

Mr. WATTS. That is the same difference.

Mr. KILDEE. What happens to the student who, say, is a good B, B-minus student, his parents want a better school, they apply to one of these scholarship schools, and the school says we have the choice between a B-minus student and an all-A student? Under your language here, you are going to put in that school a temptation of saying we are going to take the very top students rather than the B-minus students.

Mr. WATTS. No.

Mr. KILDEE. Your language invites that.

Mr. WATTS. The student would have to be within the renewal community, and this language does not encourage, in my opinion, cherrypicking. It just gives private schools and alternative schools the same option that public schools have in determining how they create an environment for the kids to learn.

Mr. TALENT. Would the gentleman yield?

Mr. KILDEE. Yes.

Mr. TALENT. It is to make clear the schools don't have to lower the standards, and not just academic, which standards are why a parent might want to send her child there in the first place. There isn't any evidence where these kinds of choices are allowed, either because people can pay for it themselves or because there is some program that moves the better students.

In fact, I think there is evidence to the contrary. If they are doing well at the public school, they are less likely to move, which is pretty commonsensical.

Most of the time, if you have the money and your child is having problems, then that is when you consider moving your child to a school that meets his special needs. The question is whether the poor kids are going to have the same opportunity, I would say to the gentleman. I think that is the experience in Milwaukee.

Mr. KILDEE. It says, "nothing in this title shall be construed to guarantee the right of an eligible child to attend any scholarship school or an alternative public school." If that isn't cherrypicking, I would like to know what it is. I am asking this sincerely. I don't think you want that.

Chairman SHAW. The time of the gentleman has expired. I would suggest if you get to markup, perhaps you might want to make some amendments.

Mr. KILDEE. Thank you, Mr. Chairman.

Mr. WATTS. Mr. Kildee, let me say this. The children in Milwaukee who get the scholarships are the lower achieving students. They are taking the lower achieving students and trying to create a system that will encourage them and nourish them through the system and give them an environment in which they can learn.

Under your definition, it seems that a public school with an undisciplined child that created havoc would not be able to discipline that student and then terminate her admission.

Mr. KILDEE. Just in summary, you have an A student disciplined and a B student disciplined. I still think you are going to have cherrypicking of the school preferring the A-disciplined student rather than the B-disciplined student.

Mr. WATTS. Under your definition, the private schools are no different than the public schools.

Chairman SHAW. Mr. Watts, I am quarterback of this particular team and I am taking the ball back.

Mr. WATTS. OK.

Chairman SHAW. We will have to leave further discussion of that particular item to other hearings.

I appreciate the panel very much for being here with us today. You have done a good job, and I compliment you on a good start on your legislation.

I would now like to introduce the second panel that I would ask to come up and sit at the witness table, and you will be recognized in the order in which I introduce you.

We have Robert Woodson, who is the president of National Center for Neighborhood Enterprise in Washington, DC; Star Parker, who is the founder and president of the Coalition on Urban Affairs out of Los Angeles, California; C. Scott Dempwolf, who is the director of the Crispus Attucks Association, Inc., of York, Pennsylvania; and he is accompanied by Robert Simpson, who is executive director; Sharon Daly, who is the deputy to the president for Social Policy of Catholic Charities in Alexandria, Virginia; and Rev. Earl Jackson, the national director of Community Development of the Christian Coalition, Chesapeake, Virginia.

Ladies and gentlemen, we have your written testimony, all of which will be made a part of the record. We would invite you to summarize, if you are comfortable doing so.

The Chair now recognizes Mr. Woodson.

STATEMENT OF ROBERT L. WOODSON, SR., PRESIDENT, NATIONAL CENTER FOR NEIGHBORHOOD ENTERPRISE, WASHINGTON, DC

Mr. WOODSON. Thank you, Mr. Chairman.

Just before I give my testimony—unfortunately, I have a previous speaking engagement and I have to leave at 12:10.

Chairman SHAW. You can go ahead and proceed, and then you will be excused.

We thank you for being here.

Mr. WOODSON. Thank you, Mr. Chairman.

The Community Renewal Act is one of the most important pieces of legislation to be introduced in the past 2 decades because it holds the promise of rescuing the poor from the suffocating grip of their saviors of the past 30 years.

Chairman SHAW. Mr. Woodson, pull the microphone back a little bit. Pull it back toward your face a little closer, so we can hear you better, please.

Thank you.

Mr. WOODSON. Thank you.

The Community Renewal Act is one of the most important pieces of legislation to be introduced in the past 2 decades because it holds the promise of rescuing the poor from the suffocating grip of their saviors of the past 30 years. Provisions of this act would answer, once and for all, whether the Federal Government will continue to pour billions of dollars each year into subsidies through an expansive poverty industry whose professional managers and staffs have prospered, while the pain and suffering of the poor continues unabated; or will the Federal Government embrace an alternative approach to aiding the poor, providing them with the tools to be agents of their own deliverance.

The clash of these two principles and these two approaches is clearly evident and illustrated by the list of those who opposed this legislation, which consists of the professional providers of the substance abuse industry, the teachers unions, and all of the others who make up the poverty industry.

By contrast, in just 3 days, when we sent word out through our network of grassroots organizations, 150 grassroots organizations responded in support of this act. These are the people who share the same zip code as those experiencing the problem, and they wish to change from clients into customers.

In the few minutes that I have left, I would like to emphasize how desperate the need is for a change in the approach where we change the locus of power from the traditional provider industry to those in the communities who are suffering the problem.

A community leader by the name of Alverta Munlyn and her colleagues from the Perry School Family Service Center live in a neighborhood that is a few minutes drive from here, where the infant mortality rate is four times the national average. Elderly people there have suffered needless amputation of limbs because their

diabetes goes untreated; yet, they are compelled to go to the local public health clinic that has been totally insensitive to their needs. Elderly people and others with lumps on their breasts have to wait 2 and 3 months to see a doctor.

A 13-year-old girl who had a baby was seen by the clinic, but there was no followup, and Ms. Munlyn found her wandering in the rain with this newborn baby because there was no followup.

In response to this, the community established its own clinic and went to Providence Hospital and Georgetown Hospital, raised $3 million, secured the support of the city's health commissioner and identified an abandoned school and put this package together, so that they could take control of their own health clinic with the help of these two hospitals.

What happened as a consequence? The service unions in the city of Washington, DC, opposed these efforts, and the city council and the control board went along with it and betrayed these residents. What they are really saying, and this is a metaphor for this whole conflict, is that the service industry in a poverty pentagon values the interest of their jobs serving the poor more than they do the well-being and lives of these children who are suffering the problem.

Another community leader with us today is Pastor Freddie Garcia from Victory Fellowship, a reformed drug addict who has changed the lives of 13,500 hardcore drug addicts at a cost of about $50 a day, with about a 60- to 70-percent success rate in cities throughout this Nation and in various other Latin American cities. Yet, Pastor Garcia and his group, who operated in public housing units as volunteers and accepted no government money, face many roadblocks in operating there. All they have gotten is resistance from government.

In conclusion, I really believe there are three provisions of this act that are important for grassroots people and would empower them.

One is the charitable tax credit. It has been estimated that less than 10 percent of all private charitable dollars go to low-income people. So, therefore, I think this act would help by empowering taxpayers, so they could give money directly to these groups. It would also ensure accountability.

The second provision would end the discrimination against faith-based organizations. The Congressman indicated that they are much more effective, and yet, they are discriminated against in policy. Many of these groups are not asking for government money. They just want to end the discrimination.

Third, we strongly support the vouchers for private education, as 83 percent of the black community that knows about vouchers in education support it, as well as the groups that we have identified here. We hope and pray that the Congress will listen to the voices of these people in the communities and invoke their interests and not the interest of the poverty industry.

[The prepared statement and attachment follow. The booklet entitled, Bridging the Gap: Strategies To Promote Self-Sufficiency Among Low-Income Americans, is being retained in the Committee's files.]

Testimony of Robert L. Woodson, Sr.
President, National Center for Neighborhood Enterprise

Joint Hearing on
"The American Community Renewal Act of 1996"
July 30, 1996

The Community Renewal Act is one of the most important pieces of legislation to be introduced in the past two decades because it holds the promise of rescuing the poor from the suffocating grip of their saviors of the past thirty years. Provisions of this Act would answer once and for all whether the federal government will continue to pour billions of dollars each year in subsidies to the expansive poverty industry whose professional managers and staffs have prospered while the pain and suffering of the poor continues unabated. Or will the federal government embrace alternative approaches to aiding the poor by providing them the tools to be the agents of their own deliverance.

The clash of these two approaches is vividly illustrated by the list of those who oppose the legislation. They fall into four categories: 1) Organizations representing professional service providers; 2) the professional substance abuse industry; 3) the professional teachers' union and its education lobbyist; and 4) the American Civil Liberties Union.

These are the same people who over the past thirty years have resisted change and expressed more interest in protecting their programs than the poor. Like George Wallace who stood at the school house steps demanding "Segregation Now, Segregation Forever!," the ACLU and other special interest groups are in effect standing in the doorway of empowerment demanding "Dependency Now, Dependency Forever!"

By contrast I have included with my testimony the list of organizations whose leadership share the same zip codes as those they serve. Since they are not well funded they cannot afford to come in person to present their testimony so they have asked me to represent them. A few of these leaders are here with me today to personally lend their support for the Community Renewal Act.

In the few minutes that I have left let me emphasize why there is such a desperate need for a dramatically different approach to aiding the poor. What is at stake here is not a contest between alternative ideologies, of conservative versus liberal approaches. What is at stake here is the lives of poor women and children,

men and women who are swimming in a sea of poverty who then confront severe injury from those society has sent to rescue them.

Not more than a ten minute drive from this Capitol a community leader by the name of Alverta Munlyn and her colleagues from the Perry School Family Service Center live in a neighborhood where the infant mortality rate is four times the national average. The elderly people there have suffered the needless amputation of limbs because their diabetes had not been treated.

The community is served by a public health clinic that is so poorly administered that it took them a week and a half on average to test a stool sample. One baby was losing weight at a rate of two pounds a week while waiting for testing. A woman with a lump on her breast had to wait two months to see a doctor.

In response the community leaders attempted to establish their own community-controlled health clinic. The group raised $3 million and formed a

partnership with Providence Hospital. The initiative was endorsed by the City's Health Commissioner as "a perfect partnership," that would have put an abandoned school building back in use while saving taxpayers a million dollars per year.

Because they feared the loss of jobs the hospital workers union and others successfully petitioned the city council to oppose the clinic. The community leaders feel betrayed. The Community Renewal Act would act to correct this abuse by "the helping hand."

Another community leader with us today is Pastor Freddie Garcia from Victory Fellowship, a reformed drug addict who changed the lives of 13,500 ex-alcoholics and prostitutes over the last 30 years. The success rate of his program is 70%, while professional therapeutic programs are often in the single digits. Victory Fellowship program costs are $25 to $30 per day compared other professional treatment where costs are up to $600 per day.

Again, what has been the response of government and conventional agencies to this demonstrably successful community approach? Rather than applaud Pastor

Garcia's efforts, the San Antonio Housing Authority this spring imposed new regulations that would require Victory Fellowship to do such things as carry $1 million in liability insurance; pay the housing authority rent to perform services for public housing residents; and submit more than forty points of documentation. All of this for an organization that gets no government money, yet combats drugs and violence and provides valuable services to the public housing authority!

These examples are illustrative of the kind of individuals and groups that will be helped by the Community Renewal Act. While I am supportive of all of the provisions, there are three key features of the Act I would like to address today.

The Private Charity Tax Credit (Kolbe-Knollenberg) will permit money to flow directly from taxpayers to grassroots organizations such as the ones I have mentioned, instead of going through governmental bureaucracies whose overhead can be as high as sixty percent. The Charitable Tax Credit would create a resurgence of civic involvement across this country linking contributors directly with the most effective community organizations, whose outcomes and

performance could be monitored at the local level by contributors.

Second, the Act would end the discrimination against faith-based providers such as Victory Fellowship and Teen Challenge who have proven track records of combatting drug use across this nation.

The Act thus recognizes the importance of combatting a crisis that is ultimately spiritual and moral in nature with faith-based neighborhood initiatives, that, uniquely, can address the root causes of social pathologies and transform the lives that have been dominated by them.

And third, the Act would give parents in low-income communities long over-due school choice to direct their children's education.

We were pleased that before crafting this legislation, Congressmen JC Watts, Jim Talent, Joe Knollenberg, Jim Kolbe and others actually went out and talked with our constituents, those experiencing the problem in our nation's inner cities. They received NCNE's Neighborhood Leadership Task Force Report on

Grassroots Alternatives for Public Policy and incorporated many of its recommendations into the legislation.

The principles embodied in the Act unleash the potential for healing and development that exists within every neighborhood of our nation.

This cutting-edge legislation not only provides long-term solutions to the problems of poverty, but also offers a paradigm that can be applied in every sector of society for the reclamation of our nation's civil society.

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NEIGHBORHOOD-BASED ORGANIZATIONS
SERVING LOW-INCOME COMMUNITIES
SUPPORTIVE of COMMUNUNITY RENEWAL ACT POLICIES

Willie Henderson, Joshua's Assembly, San Antonio, TX
Roy G. Gomez, Victory Fellowship Ministry, Dallas, TX
Joe M. Trevino, The Sparrow's Home, Houston, TX
Manuel Nabarrette, Jr, Words of Life Ministries, Dallas, TX
Dorothy Harrell, Abbottsford Homes Tenant Management Assoc., Philadelphia, PA
Richard Dodridge, Teen Challenge, Philadelphia, PA
Sylvia Nafziger Charles, Beth Shalom, Lancaster, PA
Patrice Mamba Abduallah, Haughville Community Council, Indianapolis, IN
Sarah Adeky, Ramah Navajo Weavers, Pine Hill, NM
Delores Beall, I Am That I Am Training Center, Dallas, TX
Ernest & Laverne Boykin, Capital Commitment, Washington, DC
Ruby Brunson, Oakland Licensed Day Care Operators, Oakland, CA
Chloe Coney, Lee Davis Neighborhood Svc. Ctr., Tampa, FL
Bob Cote, Step 13, Denver, CO
Freddie Garcia, Victory Fellowship, San Antonio, TX
Carl Hardrick, S. Arsenal Neighborhood Dev. Corp, Hartford, CT
Alice Harris, Parents of Watts, Los Angeles, CA
Spyke Henry, Smart Activities for Fitness and Education, Washington, DC
Harriet Henson, Northside Tenants Reorganization, Pittsburg, PA
Rita Jackson, Northeast Performing Arts Group, Washington, DC
William H. Lock, Community Enterprises of Greater Milwaukee, Ltd., Milwaukee, WI
Samuel D. McGhee, Delray Beach Ctr. for Technology, Enterprise and Development, Delray Beach, FL
Antoinette McIlwain, Ravendale Community, Inc., Detroit, MI
Juan Rivera, Victory Fellowship, San Antonio, TX
Gerald Saffold, Foundation of Prayer Ministries, Milwaukee, WI
Jacqueline Sharpe, Victims Against Crime, Norfolk, VA
Craig Soaries, Victory House, Atlanta, GA
Martha Urioste, Family Star, Denver, CO
Maxine Waller, Ivanhoe Civic League and Volunteers for Communities, Ivanhoe, CO
Leon Watkins, Cities in Schools and Family Helpline, Los Angeles, CA
Olgen Williams, Westside Cooperative Organization, Indianapolis, IN
Esther Yazzie, Navajo Spiritual Land, Recovery Project Albuquerque, NM
Ernesto Varela, Victory Fellowship, Mathis, TX
Tom Lewis, The Fishing School, Washington, DC

Joseph Young, The Joe...Picture This Show, Inc., Hartford, CT
Rev. Richard Stonewall, Maranatha Evangelistic School and Temple, Coatesville, PA
Carmen Bell, Mel Blount Youth Home, Claysville, PA
Kim Bennett, Alpha Pregnancy Services, Philadelphia, PA
Johnny Paiz, Victory Temple, Mathis, TX
Eric Johnson, Alliance of Concerned Men, Washington, DC
Ronald D. Davis, Texas Family Institute,
Terry Allen, CBO Development
Gehrig M. Saldana, Martin Weiss Recreation Ctr.
Cecil Hawkins, AA Men of Peace Development
M. Yolanda Nolan, Our Brother's Keeper-Ndugu
Clara Patterson, The AA Family Support Group
Joe Hernandez, Restoration Outreach, Inc., Houston, TX
Albert Flores, Victory Life of Odessa, Odessa, TX
Ruben Regalado, Victory Ministry of El Paso, TX
Juan Paiz, Victory Ministry of El Paso, TX, El Paso, TX
Albert Garza, Victory Outreach of Laredo, Laredo, TX
Diana Garza, Victory Outreach of Laredo, Laredo, TX
Stanley Mansfield, Skilton House Ministries, Philadelphia, PA
Charlene Johnson, Michigan Neighborhood Partnership, Detroit, MI
Ron G. Howard, MBA Consultants, Inc., Dallas, TX
Barbara Mueller, Teen Challenge, San Antonio, TX
Ray A. Montoya, Victory Life Fellowship
George Cano, Sr., Victory Ministries, Mathis, TX
Sylvia Lopez, Victory Temple, Mathis, TX
Robert Tavera, Victory Outreach, Seguin, TX
Rocky Rios, Victory in Jesus Ministries, Inc., San Angelo, TX
Rob Wisdom, Victory in Jesus Ministries, Inc., Albequerque, NM
Rosetta Carr, Serenity Family Center, Milwaukee, WI
Tenora Cottrell, AGAPE Community Center, Milwaukee, WI
Prentice Davis, Professional Business Institute, Milwaukee, WI
Kenneth Frederick, S.A.F.E. Group Services, Inc., Milwaukee, WI
Theresa Hadnot, Community Enterprises of Greater Milwaukee, Milwaukee, WI
Josephine Henderson, Daughters of Luke, Ltd. (DOLL), Milwaukee, WI
Josephine Hicks, QF&H Diner, Milwaukee, WI
Gerald Saffold, Foundation of Prayer Ministries, Milwaukee, WI
David Schachtner, Community Coordinated Child Care, Milwaukee, WI
Bruce Smith, Free Teens, Milwaukee, WI
Cordelia Taylor, Family House Inc., Milwaukee, WI
Katherine Taylor, Family House Inc., Milwaukee, WI
Rev. Lawrence Kirby, St. Paul Baptist Church, Racine, WI
Rev. Oren Arrington, Second Baptist Church, Kenosha, WI
Jo Ann Griffin, Project Bootstrap, Madison, WI
Rev. Sedgwick Daniels, Holy Redeemer COGIC, Milwaukee, WI

D.C. Neighborhood's Plan For Health Clinic Derailed

Unions Oppose Group's Effort to Take Over City's Role

By Amy Goldstein
Washington Post Staff Writer

Alverta Munlyn looked at her poor District neighborhood off North Capitol Street—the elderly women with legs amputated because of uncontrolled diabetes, the pregnant teenagers who don't go to doctors, the babies who die needlessly in infancy—and decided her neighbors would be healthier if they took over one of the city's faltering health clinics and ran it themselves.

So Munlyn persuaded Providence Hospital to manage a clinic her community would operate out of a historic former school building. She persuaded Georgetown University to provide doctors. And she persuaded D.C. public health officials to close a nearby city clinic and subsidize hers, showing them that the arrangement would save more than $1 million a year.

Finally, Munlyn presented her proposal to D.C. Mayor Marion Barry. By the end of the half-hour meeting, the mayor was a convert, too.

But the Perry School Family Health Center may never open.

The idea has run afoul of labor unions representing D.C. government health workers that say they believe it would deprive their members of jobs and undermine other city plans to change health care for the poor. The unions took their complaints to the D.C. financial control board, which has agreed that the clinic is ill-timed.

As a result, less than two weeks after all of the parties signed an agreement outlining one of the Washington area's most creative proposals for improving a community's health, D.C. officials have backed off.

See CLINIC, A10, Col. 1

Alverta Munlyn is leading efforts to turn the old Perry School, behind her, into a health clinic.

Community Group's Effort to Run D.C. Clinic Hits Obstacle

CLINIC, From A1

City Administrator Michael C. Rogers said that the Perry School clinic remains a good idea but that its fate will be decided by a quasi-private board—which does not yet exist—that is expected to start running the city's health clinics and its public hospital late this year. Rogers said Barry has promised that the board alone would have the power to decide whether any clinics should become private or be closed.

"That is disastrous. That could be five years down the road," said Munlyn, who has worked as a community organizer since the "urban renewal" days of the 1960s. "That is going to be more costly to my community and to the city."

The obstacles to the Perry School clinic show how difficult it can be to change the District's status quo, even when Barry (D), the control board and Congress are eager to lessen the burdens on the city's reeling government. Health experts say the clinic would be a model public-private partnership, a much-touted arrangement offered as a way to help the District and other governments leverage their strained resources.

"Everyone is saying what a great idea it is, but there is always a reason why it can't be done," said Sister Carol Keehan, president of Providence Hospital, who was so impressed with Munlyn's idea that she agreed to have the hospital run the clinic and to make available the hospital's laboratory, X-ray services and pharmacy.

But in another sense, the obstacles to the clinic reflect a basic disagreement that is emerging as the city tries to change a public health system that is overburdened and ineffective: Should the city's large population of poor people be cared for, as the unions believe, through their own network of services? Or should they be cared for, as the District's public health leaders believe, by the same doctors and nurses who treat the middle class and well-to-do?

The fact that two private hospitals have agreed to the unorthodox venture attests to another reality, as well. As changes in health care leave hospitals such as Georgetown and Providence with less money and more empty beds, poor patients who rely on Medicaid are being transformed from medical outsiders into valued commodities. The hospitals are willing to reach further into the community for new sources of business.

For Munlyn, and for her neighbors in the low-income apartment complexes near North Capitol and M streets NW, the issues are more personal. They need better health care, and they want to become more self-sufficient in providing many kinds of social services.

At the core of that vision is Perry School, opened in 1891 as one of the nation's first public high schools for black students. Today, the imposing red-brick building is vacant, its neoclassical doorway padlocked, its tall windows boarded up.

Since the late 1980s, Perry School Community Services Center Inc., the community group that Munlyn leads, has raised more than $3 million in private donations. It needs $1 million more, but it held a groundbreaking ceremony last week and hopes to open the building in a year as a place where neighbors can find job training, day care, reading programs, senior citizen services and mental health counseling. Already, the group has arranged with various nonprofit groups to carry out the work.

The health center would be an anchor, occupying the entire first floor.

It would serve about 16,000 people, many in dire need of better care. Forty of every 1,000 babies born in that community die before their first birthdays—an extraordinary rate that is more than twice the citywide rate and four times the U.S. average. The number of infants who die is considered a bellwether of a community's health.

Alverta Munlyn, center, talks about plans to turn Perry School into a health clinic during a meeting at the Sursum Corda community center. The privately-run clinic would replace a faltering city clinic to serve neighborhood residents.

Such an enormous problem persists even though residents live within blocks of the Walker-Jones clinic, one of the largest city-run health centers, with more than 10,000 patient visits last year.

Frank Silagy, a doctor who is director of community projects in Georgetown's Department of Family Medicine, said that proximity to a clinic that accepts poor patients doesn't automatically improve a community's health.

A clinic needs to reach into the community, and the community needs to trust it, said Silagy, who works at Walker-Jones part time. "That is what [the Perry School] proposal advances."

In a neighborhood where diabetes is common, Walker-Jones sometimes runs out of insulin and syringes. The clinic's roof leaks. Some days, there are no drivers to take blood and urine specimens to the city's overwhelmed medical lab.

"It's just one thing after another," said D.C. Public Health Commissioner Harvey I. Sloane. He said the Perry School clinic would be "a perfect partnership. It's a real win-win situation." The clinic is projected to cost the city $900,000 in its first year and $300,000 annually after that. The District spends $1.6 million a year on Walker-Jones.

The idea of a community-owned clinic has captured the imagination of some residents who have turned to Walker-Jones for help.

A 45-year-old woman named Mary, who is uninsured and unemployed and lives nearby in the Sursum Corda co-op, relies on the clinic for treatment of her heart problem and high blood pressure. She gets frustrated when the clinic runs out of her blood pressure medicine. She gets even more upset on the days when her headaches get so severe that she goes to the clinic to have her blood pressure checked and has to sit for hours in the waiting room.

"By your being sick and all, the waiting gets harder," Mary said. "Sometimes, I just get up and leave." One day the summer before last, her headache was so sharp that she left after 45 minutes to go home and lie down. Later that day, her daughter found her passed out on the living-room floor.

Sydnee Jones, 29, walked into Walker-Jones for the first time in mid-May, when she found a lump in one of her breasts. She was terrified; her mother had died of breast cancer. She had had private health insurance until last year, when she lost her job at Woodward & Lothrop because the department store went out of business.

When she asked the clinic for an appointment, a woman at the front desk said none was available for more than a month. "I was like, wait a minute, I could be dead by then," Jones said.

She ended up getting an appointment sooner, after she called Munlyn, who called Silagy. The lump turned out to be an infected cyst, but Jones said she believes that a community-owned clinic would offer more compassionate care. "The person answering the phone could be my neighbor."

Said Mohammad N. Akhter, a former D.C. health commissioner who heads Barry's new Health Policy Council: "This makes perfect sense for the city. For the first time, we will have one system of care for the rich and the poor."

Perry School would be the first example of several unorthodox arrangements that Akhter and Sloane are trying to work out to make "primary care" more complete and convenient for the city's poorest residents. They are trying to negotiate for Chartered Health Plan Inc., a health maintenance organization, to run a large clinic in what is now a Northeast Washington grocery store. They are trying to tighten ties with two federal clinics.

But Lori Calderone, executive director of the Doctors Council, the union that represents 300 doctors who work for the city government, said such efforts conflict with a plan—supported by the mayor and likely to be approved by the D.C. Council this week—to create a "public benefits corporation" to run city clinics and D.C. General, the public hospital.

By siphoning large groups of patients into independent clinics, Calderone said, "they are setting up the [benefits corporation] to fail." Labor leaders are afraid, in particular, that D.C. General—which employs more than 1,500 city workers—could close if too many poor patients were treated at clinics with links to private hospitals.

"The long-term implication of what something like [the Perry School clinic] could mean, if replicated all over the place, is a loss of jobs," said Joslyn N. Williams, president of the Metropolitan Washington AFL-CIO.

The union stance has angered D.C. Council member Jack Evans (D-Ward 2), who represents Munlyn's neighborhood. "It is about jobs and taking it out of control of organized labor," Evans said. "At some point, you have to put your interests aside for the better interest of the community."

Munlyn said the Perry School clinic would invite Walker-Jones workers to apply for jobs. She said the clinic also would try to make more residents employable by training volunteers to do clerical work.

Georgetown's Silagy said that the Perry School clinic would not undermine the public benefits corporation because the patients now treated at Walker-Jones account for just 4 percent of the patients in the citywide network of 11 clinics and D.C. General.

But John W. Hill Jr., the control board's executive director, said city officials had erred by neglecting to analyze how such a clinic would affect the public benefits corporation. He said the control board would approve the idea only if it were later reviewed by that corporation's board—a requirement that he acknowledged would make it difficult, if not impossible, for the community group to move forward quickly.

Barry said last week that he remained "committed to the concept. We are having some difficulties that we are working through. [But] after some bugs get ironed out, it will happen."

Munlyn said, though, that it is foolish to wait. "The city is in a very hard strain in giving health care right now," she said. "If . . . communities come in and take care of themselves, that will help the city."

Chairman SHAW. Thank you, Mr. Woodson, and you are excused for your next obligation.

Ms. Parker.

STATEMENT OF STAR PARKER, FOUNDER AND PRESIDENT, COALITION ON URBAN AFFAIRS, LOS ANGELES, CALIFORNIA

Ms. PARKER. Hello. My name is Star Parker, and it is a privilege for me to be here today on behalf of Congressman J.C. Watts and Congressman Jim Talent and their excellent proposal, the Community Renewal Act of 1996.

I mean no disrespect, but it would seem that some of the Congressmen that were represented here today have never been in the inner city in regards to the school choice discussions you had 1 moment ago, especially the part about where people would have to leave the city. I know of too many people that have to walk past wonderful, tremendous schools, with excellent track records, to get to their broken-down public schools.

I want to talk to you today about these poverty-stricken areas and how they need more than just economic renewal. We need moral renewal, and when as a society we keep trying to separate the poor from God, we are separating a key part of the solution. For too long, churches have had excellent track records to helping people out of poverty, off of drugs, out of welfare, out of criminal activity. Yet, not only are they not given credit for their tremendous success rates, but so often they find themselves isolated by government, which keeps them from being more effective.

I want to tell you a little bit about my personal life and how I know the impact of church. I personally was one that was on drugs, in crime, and in poverty. I lived over 3½ years on the AFDC welfare system in Los Angeles, and it wasn't government that came to me and gave me the solutions to my problems. It was a man of God who dared to point his finger in my face and tell me that the government is not my source, but God is. It was at that time that I began to learn how to work in the American system with the system and, after that, getting myself to the point where it was through this church-based organization that I was able to get myself into business.

I want to mention briefly the isolation of government. When I had my business in Los Angeles, up until it was destroyed during the 1992 Los Angeles riots, I worked with more than 500 urban-based businesses. I will tell you, one of the biggest problems that we have in the inner city is that we have too much regulation from government.

I remember the first day I got paperwork from the organization called the EDD. I didn't know who they were. I was a simple business owner, a small business owner, attempting to make ends meet by selling advertising to smaller businesses.

I remember one of our businesses, a street vendor, who sold little Raggedy Ann dolls. He had it right on the corner in Los Angeles on Crenshaw and Slauson, and he would make these dolls. So as the kids in the community came by, they would see the efforts of people putting their hands to a project and then selling these dolls, but who shut them down? The regulation, the city, because they came in and said that he owed them $2,000 tax money for standing

on that corner. They don't do that to the drug dealers on the corner, but they do it to business people.

The zoning laws, when I had my business in my home, the government actually came out there to make sure I wasn't doing something illegal, like printing in my apartment.

When you discuss schools, the private schools are competing with the government in urban communities, and I want to tell you a story that I tell often because it is a personal story, but some of you can relate to it. Many of you remember the name Damian Williams because we all saw him on our national televisions. He was the guy with the brick over Reggie Denny's head during the 1992 riots.

Well, Damian Williams was trapped in a school right up the street from where my daughter went to school, and the reason I say trapped, and I like that word "escape" because people do have to escape, I was in a position because of my business that I was able to dig really deep into my pocket and pull out $230 a month to send my daughter to a faith-based school, where, yes, the men did wear collars. Yes, they did hold sticks in their hand, and you don't want to get sent to the principal's office, but the graduation rate at my daughter's school was 98 percent. Those kids could read.

In fact, my daughter today is 15 years old. She is a senior in high school. She just took her SAT and did very well, and she has a 3.7-grade point average. She is now looking at what college she will go to.

On the other hand, Damian Williams, who went to school right up the street from where my daughter went to school, had a school where they had glass all over the playground. They had locks on the doors in order to get into the classroom, broken lockers, braless teachers, teachers that were drunk, and Damian Williams is in jail today. We, the taxpayers of Los Angeles, are paying for him.

Now, I know that you guys are used to talking about all of these superficial issues here in Washington, DC, but I will tell you, this is real life in the urban communities, and had we empowered his mother with a voucher, she wouldn't have had to go out to the suburbs to find a good school. She could have walked up the street, and I think that it is our responsibility to stop talking all of this hogwash about bankrupting schools that already have a 70-percent dropout rate and start talking about what is real in the communities and who are providing.

When you talk about the church-based organizations and your insistence of this wall of separation, you are separating people from the solution.

There are over 2,000 churches in Los Angeles. Most of them have business development centers. Most of them have schools. Most of them have drug rehab programs that are very, very effective. Their biggest problem is government has been competing with them too long, stealing the resources of the taxpayers from the community, and then throwing them into organizations and so-called programs that have not worked.

I want to commend you for your efforts in welfare reform. I appreciate, Mr. Shaw, the work you did with the Personal Responsibility Act last year, and I really like the efforts that are going on

right now, but the next step is the Community Renewal Act of 1996. I hope that you will consider this legislation.

[Ms. Parker's statement was not available at the time of printing.]

Chairman SHAW. Mr. Dempwolf.

STATEMENT OF C. SCOTT DEMPWOLF, DIRECTOR, CRISPUS ATTUCKS ASSOCIATION, INC., COMMUNITY DEVELOPMENT CORP., YORK, PENNSYLVANIA; ACCOMPANIED BY ROBERT L. SIMPSON, EXECUTIVE DIRECTOR, CRISPUS ATTUCKS ASSOCIATION, INC.

Mr. DEMPWOLF. Thank you.

Good morning. I would like to thank both Subcommittees for the opportunity to share the experience of CAA, the Crispus Attucks Association, Inc., and our current understanding of what it takes to revitalize a neighborhood.

Located in the most distressed neighborhood of York, Pennsylvania, CAA operates an early learning center for 170 children, instilling values and self-esteem, while providing our kids with an academic jump start. In fact, once they enter school fully, 90 percent of our children achieve the honor roll in their school.

At the other end of the age spectrum, CAA seniors program provides hot meals and social activities for a group which is old in body, but young at heart. Our seniors are often engaged with our youngsters in various programs, including youth programs where hundreds of young teenagers participate in responsibility classes, learning to take responsibility for themselves and for their community.

Recreation at Crispus Attucks is a privilege, earned long after the membership is paid for. At CAA, kids in the community have access to some of the finest facilities and equipment from the gymnasium to the pool to the computer lab, but before they learn some new moves on the basketball court or ascend to the next level of their favorite video game, our kids learn some smart moves to keep their lives on the right track. These programs take money to run, and we have been blessed with a generous community. However, the charitable contribution provisions of the act would provide an additional incentive for more people, even those of modest means, to support these programs.

For those young people who have gotten onto the wrong track, CAA operates a Youth Build Program where each year 30 to 40 young people, ages 16 to 24, work to get their GED or their high school diploma while they rebuild housing for the homeless. Crispus Attucks Youth Build harnesses the energy and the potential of these young dropouts and transforms many of them into community leaders.

As an aside from this, I would ask all of you to support HUD funding for the Youth Build Program. Currently, the House has approved $20 million. The Senate and the administration have approved $40 million. I strongly urge you to support the funding at $40 million.

Youth Build isn't the only part of Crispus Attucks working in housing or job training. In a neighborhood where one in every four households is on public assistance, the Crispus Attucks Center for

Employment and Training is at the forefront of welfare reform. The center offers a program designed to remove the able-bodied from the welfare roles to the payrolls of the work force as rapidly as possible.

During our first 6 months, we have placed 42 recipients in jobs. Pulling down a paycheck helps people who reside in Crispus Attucks housing to pay the rent, as 85 percent of our tenants work for a living, far above the neighborhood average. To provide those apartments, Crispus Attucks has rehabilitated 120 units in 60 buildings in the southeast neighborhood, and by the end of 1997, another 47 units in 22 buildings will be completed, erasing eyesores throughout the neighborhood.

While rental housing and rehabilitated buildings stabilizes the neighborhood and mends the physical fabric, it is not the long-term solution. Moving people from welfare to entry level jobs is a good start, but it is not the long-term solution. The fundamental problem that we face is poverty in all of its manifestations, and the long-term solution to poverty is the creation of wealth. Wealth, quite simply, is ownership.

Home ownership is one way to build wealth, and CAA is actively engaged in the redevelopment of single-family ownnership. Business ownership also creates wealth, and CAA CDC's first effort was the formation of a for-profit subsidiary, the Crispus Attucks Construction Co., which hires welfare recipients, Youth Build graduates, and unemployed construction workers from the neighborhood.

Ownership is created through an employee stock plan where construction employees can own part of the company and share in the profits.

All of this work leads up to our most ambitious effort to date, the Boundary Avenue Project. Simply put, the Boundary Avenue Project is the culmination of everything we have learned about community development. It is the creation of a new neighborhood commercial center which provides offices, medical facilities, education and training facilities, entertainment facilities, a food store, restaurants, and shops.

In providing for all of these varied uses, the Boundary Avenue Project creates two very important byproducts for the city at large: jobs and tax base. Hundreds of jobs will be created and will range from entry-level service jobs through managerial and professional positions. There will also be a number of opportunities for entrepreneurial startups, and a wide variety of businesses will be encouraged.

When complete, the project should also add upward of $1 million annually to the city coffers. It is in this context that the Community Renewal Act becomes a powerful tool for reinvestment in our community.

The southeast neighborhood may be poor in economic terms, but we are rich in spirit. This is a community with a fierce determination to become independent and self-sufficient. While I believe that the Federal Government has the responsibility for direct investment in our poor communities, the Community Renewal Act provides a valuable and appropriate incentive for private investment.

The commercial revitalization tax credit, favorable treatment of capital gains, and the work opportunity tax credit all provides such incentives.

The commercial revitalization tax credit provides incentives for investment, but more importantly, it allows the community through Crispus Attucks to maintain control of the development by offsetting much of the equity requirement. Simply put, the credits will enhance the negotiating position of our low-income citizens to determine and control what gets built in their community.

Gentlemen, we have a plan of what we want to do, and we have the determination to do it. We are asking for your help to allow us to do this and to maintain control within low-income communities to make this happen.

Thank you.

[The prepared statement and attachments follow:]

STATEMENT OF C. SCOTT DEMPWOLF, DIRECTOR
CRISPUS ATTUCKS ASSOCIATION, INC.
COMMUNITY DEVELOPMENT CORP.

Good Morning. I would like to thank both committees represented here for the opportunity to share the experience of Crispus Attucks and our current understanding of what it takes to stabilize, sustain, improve and expand a declining neighborhood. Time does not permit me to fully describe the comprehensive nature of our approach, but it is detailed more fully in the written testimony. In brief, Crispus Attucks Center is among the largest and most comprehensive community center in the country. Located in the most distressed neighborhood of York, Pennsylvania, CA operates an early learning center which provides top quality day care and nutritious meals for 170 children, instilling values and self-esteem while providing our kids with an academic jump start. In fact, once they enter school, fully 90% of our kids make the honor roll in their school. This has prompted us to begin to examine the potential of developing a charter school at Crispus Attucks, and the scholarship provisions of the Community Renewal Act would allow us to take that next step. At the other end of the age spectrum, the CA Seniors program provides hot meals and social activities for a group who are old in body but young at heart. Our seniors are often engaged with our youngsters in various programs.

These activities include youth programs, where every day hundreds of young teenagers participate in responsibility classes, learning to take responsibility for themselves and their community. Recreation at CA is a privilege which is earned long after the membership is paid for. At CA, kids in the community have access to some of the finest facilities and equipment available anywhere, from the gym to the pool to the computer lab. But before they learn some new moves on the basketball court, or ascend to the next level on their favorite video game, our kids learn some smart moves to keep their lives on the right track. These programs take money to run, and we have been blessed by a generous community. However, the charitable contribution provisions of the Act would provide an additional incentive for more people, even those of modest means to support these vital programs.

For those young people who have gotten onto the wrong track, CA operates a YouthBuild program where each year 30-40 young people ages 16 to 24 work to get their GED or high school diploma while they rebuild housing for the homeless. Crispus Attucks YouthBuild harnesses the energy and the potential of these young dropouts and transforms many of them into community leaders. Already dozens of young people have gone from being a burden to society to being positive role models in neighborhoods where many of us are afraid to go. As an aside, while this bill does not specifically address YouthBuild, I would urge all of you to support HUD funding for the YouthBuild program. Currently the House has approved $20 million; the Senate $40 million. I strongly urge the House to recede to the Senate in conference on funding for this important and effective program.

YouthBuild isn't the only part of Crispus Attucks working in housing or job training. In addition to YouthBuild, the Crispus Attucks Community Development Corporation is actively engaged in finding creative solutions to the problems which plague our cities. In a neighborhood where one in every four households is on welfare of one form or another, the Crispus Attucks Center for Employment and Training is at the forefront of welfare reform. The Center offers Project Connect, a program designed to move the able bodied from the welfare roles to the payrolls of the work force as rapidly as possible. During our first six months, we have placed 42 welfare recipients in jobs for nearly a 60% placement rate. And pulling down a paycheck helps those who reside in CA housing units to pay the rent. Eighty-five percent of the 110 tenants work for a living, far above the neighborhood average. To provide these apartments, CACDC has rehabilitated over 60 buildings in the Southeast Neighborhood. And by the end of 1997 another 47 rental units in 22 buildings will be completed, erasing eyesores throughout the neighborhood.

But while rental housing in rehabilitated buildings stabilizes the neighborhood and mends the physical fabric, it is not the long term solution. Moving people from welfare to entry level jobs is a good start, but it not the long term solution. The fundamental problem in the Southeast Neighborhood is poverty, and the long term solution to poverty is the creation of wealth. Wealth, quite simply, is ownership. Home ownership is the simplest way to build wealth, and where home ownership makes economic sense, CA is actively engaged in the rehabilitation and resale of single family homes. Another way to create

wealth is through business ownership, and to foster this CACDC is engaged in a number of efforts. To accomplish the extensive renovations to properties under redevelopment, CACDC formed a for-profit subsidiary, Crispus Attucks Construction Company, Inc., hiring former welfare recipients, YouthBuild graduates, and unemployed construction workers from the neighborhood. Ownership is created through an employee stock plan, wherein construction employees can own part of the company and share in the profits.

CA is committed to building and strengthening the local economy, and over the last three years has created over 70 jobs in our community. We are currently seeking discretionary grant funds from the US Department of Health and Human Services to establish a community owned grocery store, fund the expansion of our construction company, and the development of an entrepreneurial training and development program. These efforts will create an additional 170 jobs over the next 3 years. This summer, CACDC and Crispus Attucks Construction will partner with a local minority owned business, and with two Harrisburg based businesses in the rehabilitation of three prominent buildings on South George Street, bringing new commercial life and a dozen more jobs to the corridor.

All of this work leads up to the most ambitious - and arguably the most important - CA effort to date, the Boundary Avenue Project. Simply put, the Boundary Avenue Project is the culmination of everything we have learned about community development. It is the creation of a new neighborhood commercial center which provides office space, medical facilities, a world class education and training facility, movie theaters, entertainment and recreation facilities, a food store, restaurants and shops. In providing for all of these varied uses, the Boundary Avenue Project creates two very important by-products for the city at large - jobs and tax base. Hundreds of jobs will be created and will range from entry level service jobs through managerial and professional positions. There will also be a number of opportunities for entrepreneurial start-ups, and a wide variety of businesses will be encouraged. The tax base created will also be substantial. When complete, the project should add upwards of $1. million annually to the city coffers.

It is in this context that the Community Renewal Act becomes a powerful tool for reinvestment in our community. The Southeast Neighborhood of York may be poor in economic terms, but we are not poor in spirit. This is a community with a fierce determination to become independent and self-sufficient. While I believe that the federal government has a responsibility for direct investment in our poor communities, the Community Renewal Act provides valuable and appropriate incentives for private investment. The commercial revitalization tax credit, favorable treatment of capital gains, and the work opportunity tax credit all provide such incentives. Even with TIF financing, bond issues, and a committed group of lenders, a project of this magnitude will require approximately $6. million in equity. The commercial revitalization tax credits will provide an incentive for investment, but more importantly, it will allow the community, through Crispus Attucks, to maintain control of the development by offsetting the bulk of the equity required. Simply put, the credits will enhance the negotiating position of low income communities to determine and control what gets built within their community.

Crispus Attucks Community Development Corporation

History

Recognizing that rehabilitation of neighborhood properties was essential to the success and long-term stability of its community center, Crispus Attucks Association, Inc. founded a housing subsidiary in 1982. Originally named Crispus Attucks Revitalization, Crispus Attucks Community Development Corporation (CACDC) was formally incorporated and received 501(c)(3) status in 1987. With minor modifications to the Board of Directors, CACDC became a designated Community Housing Development Organization (CHDO) in 1993. To date CACDC has completed substantial rehabilitation of 63 buildings in the southeast neighborhood of York.

The Crispus Attucks Employment Center was founded in 1986 to help minorities and the hard-core unemployed find stable, good paying jobs. A "jobs bank" was created and to date over 4000 jobs have been posted. Nearly 800 permanent and several hundred temporary placements have been made. Over 200 of the permanent placements have been successful over the long-term. In 1994 the Center won the prestigious EPIC award from the US Department of Labor for its efforts in minority job placement. But 1994 was also a year of strategic restructuring for the employment center. Without adequate job training, the prospects for *stable* employment of the center's clients remained marginal. The Employment Center made a decisive shift to an emphasis on job training and education, changing its name the Center for Employment and Training. The center is now at the forefront of the Welfare reform movement, finding new ways to address one of the most intractable problems of our age.

The experience of the early housing development and employment activities revealed very clearly that the problems facing the neighborhood were systemic. Real and lasting change would only come if the community addressed those systemic issues underlying the more obvious symptoms of physical decay, crime and wide-spread unemployment. The York 2000 Commission identified the issues in its commission report in 1990. Not surprisingly, they included a need for more basic and vocational education and expanded economic opportunity for the minority community. With these issues clearly identified, Crispus Attucks Association went to the business community with a plan for a new human resource center. Within six months the Association had raised the $2.2 million necessary to construct the addition to the existing center and to meet the challenges head-on.

Today, the Crispus Attucks Community Development Corporation and its Employment Center operate out of the 90,000 square foot Crispus Attucks Community Center. CACDC is one of three broad divisions of the center, sharing the facilities with an Early Learning Center which provides child care and latch-key programs for more than 170 neighborhood children. The success of the program is reflected in the following statistic: 90% of Crispus Attucks school age day care children are on the honor role of their school. The Crispus Attucks Association operates youth counseling and development programs, a youth center and study hall, and a snack bar. Recreational facilities and programs including swimming, basketball and weight training are available. CA is also the home of the South Side Steppers, the reigning state and national junior drill team champions.

Active since 1931 and now the largest center of its kind in the country, Crispus Attucks continues to grow, developing new and innovative solutions to the fundamental problems of poverty which plague our nation. With each new solution comes an improved understanding of the complex and dynamic systems which have entrapped a generation and a class of American citizens in the "era of benign neglect." With each new problem comes yet a deeper compassion and respect for the dignity and intrinsic value of each human life.

CACDC Mission Statement

The mission of Crispus Attucks Community Development Corporation is to empower residents at the grass roots level to transform the Southeast Neighborhood into a safe, attractive and vibrant community. CACDC seeks to promote self sufficiency through a comprehensive application of physical redevelopment, property management, employment services and support services. These individual focus areas contribute to the overall mission in the following ways:

> *Physical Redevelopment* seeks to foster a commitment to the neighborhood by focusing public & private resources on physical transformation through strategic acquisition and rehabilitation of residential and commercial properties.
>
> *Property Management* works to promote a sense of community by providing and managing decent, safe, affordable rental housing and encouraging residents to assist in the maintenance of their homes and community. Homeownership is encouraged and facilitated through financial counseling, home buyer training and community lending programs.
>
> *Employment Services* promote self-sufficiency for the hard-core unemployed through education, training, counseling and job placement.
>
> *Support Services* are offered to help break the cycle of multigenerational poverty by empowering residents to address their own problems and providing the necessary support for the process to occur.

Current Status, January 1996

Physical Redevelopment

CACDC's physical redevelopment priority is being pursued on two fronts: residential and commercial. On the residential front the corporation has reached a stable production rate of 36 units per year. This rate will lead to the rehabilitation of 180 units of affordable housing in roughly 100 buildings over the next five years, at a cost of nearly $12. million. 95% of the units will be targeted to very low and low income levels, with several restricted to housing homeless families. Many of the buildings scheduled for rehabilitation are single family homes. While they will initially be used as rental housing, they represent a stock of homes which will be converted to homeownership over the next 15 to 20 years. Under this model, using the structures as rental housing over a period of 10 - 15 years allows for the use of the low-income and historic tax credit, and also allows rents to offset the high cost of rehabilitation. Such an approach also provides for revitalization without wholesale gentrification.

On the commercial front CACDC continues to revitalize scattered site business spaces where appropriate, while focusing most of its energy on the Boundary Avenue Development Project. This project is a $34. million development of a new neighborhood commercial center at the intersection of South George Street and Boundary Avenue. When completed, the project will include roughly 200,000 square feet of new and rehabilitated commercial space. Uses include offices, shops, restaurants, movie theaters educational facilities, a health clinic, pharmacy, branch bank and grocery store. In support of this will be two parking structures offering nearly 700 parking spaces. With the first

building scheduled to begin construction in the spring of 1997, the project is expected to take approximately five years to complete.

Property Management

CACDC presently manages 120 apartments and commercial spaces in 64 buildings throughout the neighborhood. The occupancy rate fluctuates between 90% and 96%. Approximately 80% of the households are headed by a female and average family size is 3.4. 72% of the families work at least part-time and average household income is $13,100 - *less than 40% of median income for the York MSA.* (There is no significant difference between median and mean incomes for the tenant population.) 75% of the households are African- American; 18% Latino; 6% Caucasian and 1% other.

Employment Services

The Crispus Attucks Center for Employment and Training has experienced considerable growth and change. With the completion of the new Human Resource wing of the Crispus Attucks Center, the focus of the employment center has shifted to provide a greater emphasis on training and education. The new wing includes three new classrooms, a machine shop, two computer labs and a multi-purpose room. Partners in Education (PIE), an educational consortium representing twelve educational institutions has been in operation for two years and is working to define the new collaborations necessary to transform our educational system. PIE coordinates the educational offerings at the center, providing adult basic education through college level programs, along with lecture series' and enrichment courses.

The Center for Employment and Training has also taken a leading role in the welfare-to-work movement which is at the heart of welfare reform. in the fall of 1994 Crispus Attucks hosted a night of hearings by the Welfare Committee of the Pennsylvania Senate. Offering testimony based on years of experience, CA staff presented their own welfare-to-work system, a version of which was later funded through the Pennsylvania Department of Public Welfare's Project Connect. Over the next three years, Project Connect will move hundreds of York County welfare recipients off the welfare rolls and into the working world. While both financial and philosophical constraints have limited the scope of project connect, the Center for Employment and Training continues to work on the development of its training model, which includes a machine shop and several other vocational training facilities.

Support Services

The decline of the American family and in particular the African-American family has been well documented in recent years. The statistics of CACDC's own rental units reflect this disturbing trend with 80% of the households headed by single mothers. In CACDC's rental units alone this places nearly 150 children at risk, without a stable male presence in the household. In addition to the youth programs based at Crispus Attucks Center, CACDC offers a variety of low-intensity counseling services, providing support and referral to agencies which specialize in drug and alcohol abuse, domestic violence, mental illness and a host of other problems.

CACDC also conducts an annual Earned Income Tax Credit (EITC) campaign and a Volunteer Income Tax Assistance (VITA) program. Together these programs cost less than $5,000. to run, yet they yield over $500,000. in direct benefits to working families in the community. Volunteers help families prepare their tax returns, taking advantage of the appropriate tax credits, and counseling them on the prudent use of tax refunds. The program is now in its third year and continues to grow in popularity.

CACDC staff also work with several students from William Penn High School in the Graham scholarship program which targets inner city minority youth who would otherwise not be college bound. The program pairs the youth with York College student mentors,

giving them additional preparation for college and providing them with the necessary funds to attend the college of their choice.

YouthBuild

Established in 1994, the YouthBuild program combines all of the CACDC objectives in one program. Annually the YouthBuild program provides training opportunities for nearly 30 high school dropouts putting young trainees to work rehabilitating housing for the homeless. The trainees, ages 16 - 24 learn construction skills, but also spend alternate weeks in the classroom preparing for their GED or high school diploma. Upon completion of the one year training period the Employment Center will help the trainees find work or assist them in college enrollment. The entire program is embedded in a leadership development context designed to cultivate a new generation of neighborhood leaders. YouthBuild students are also AmeriCorps volunteers, completing approximately 1000 hours of volunteer service during the year.

Community Initiatives

CACDC has been active in a broad community initiative - the South George Street Community Partnership. Funded entirely by private donations, the partnership seeks to bridge several diverse interests and link the efforts of several community groups to provide greater coordination in the delivery of services. The Partnership, in conjunction with participating organizations has prepared a comprehensive plan for coordinated service delivery which addresses the linkages between these diverse segments of the community. CACDC has participated in the development of the plan and has also provided administrative and financial support for the effort.

CACDC is also working with the city on the preparation of a redevelopment area plan for the South George Street corridor. This is only the latest in a series of collaborations between the city and CACDC - a series which has involved the preparation of several grant applications as well as the city's plan for designation as a federal Enterprise Community.

These initiatives combined with CACDC's own programs should achieve significant redevelopment of South George Street corridor and the southeast neighborhood over the next five to ten years. Initiatives such as YouthBuild, the Welfare-to-Work program, the Earned Income Credit campaign, and the Boundary Avenue Project will help extend and supplement our families' limited resources. Every family deserves the opportunity to make a better life for themselves. Crispus Attucks Community Development Corporation is committed to providing that opportunity.

Organizational Structure

Crispus Attucks Community Development Corporation has experienced explosive growth during the past three years, growing from six employees in 1992, to thirty-eight employees in four departments and one subsidiary corporation in 1996. CACDC also has four subsidiary limited partnerships for the purpose redevelopment and ownership of rental property. These subsidiaries are depicted in figure 1 on the following page, and are described below. CACDC maintains a number of contractual arrangements with these subsidiaries, including construction contracts, development contracts and management agreements.

Crispus Attucks Construction Company, Inc., a for-profit corporation owned by CACDC, began as the construction department of CACDC in January 1994. After completing over $1 million in rehabilitation projects, the department was spun off for several reasons. First, a for-profit corporation is not subject to the same restrictions as a non-profit, allowing it to enter markets which would be outside the domain of the CDC.

Second, the separation provides for an additional, direct funding stream to Crispus Attucks Association, Inc., in the form of licensing fees. Since support of the Association is one of the fundamental missions of the CDC, this motivation is consistent with the overall CDC mission. Third, formation of a separate, for-profit corporation promotes economic development by allowing employees to participate in a Phantom Stock plan which vests one third of the rights and benefits of ownership in a stock pool for employees of the company. Such a plan will promote the expansion of minority owned and neighborhood based businesses as employees use their accumulated equity to form new companies of their own. Fourth, the formation of a separate corporation protects the CDC from the risks associated with construction, while providing for significant asset accumulation as the company increases in value. Two thirds of the appreciation will accrue to the CDC.

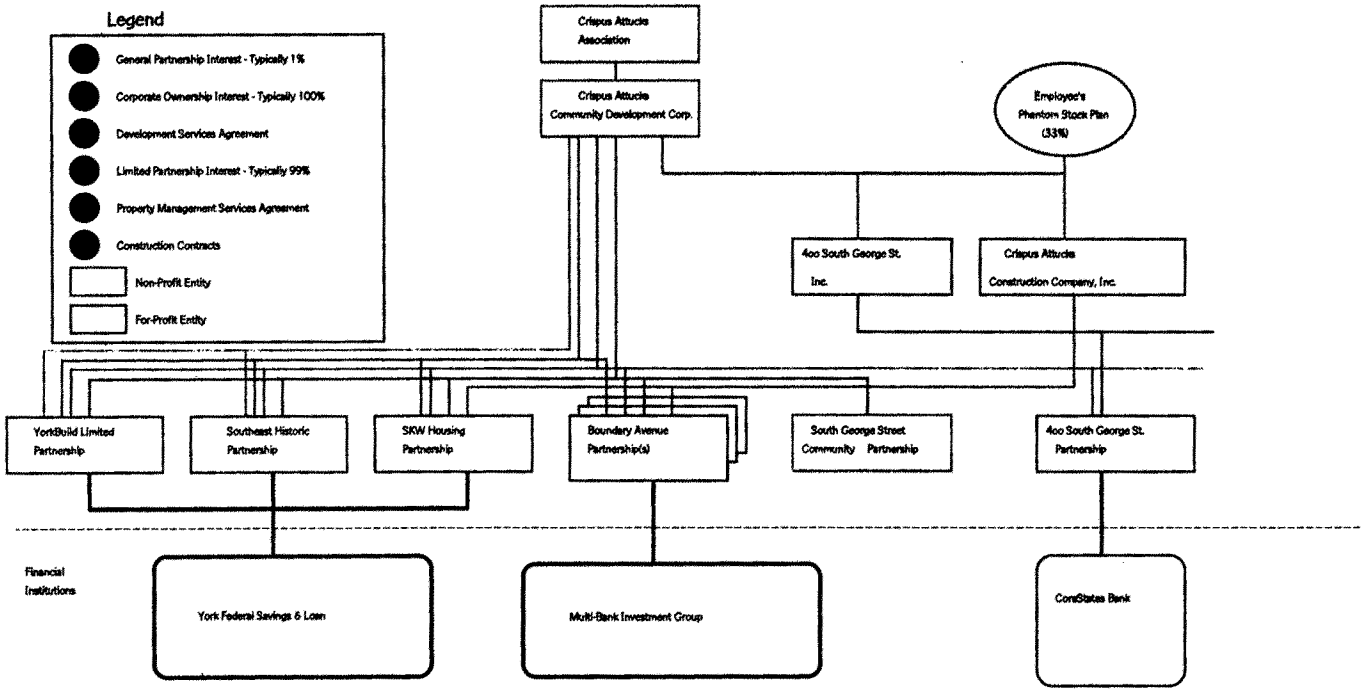
400 South George Street, Inc., a for profit subsidiary holds CACDC's 1% interest in the ***400 South George Street Partnership***. Ninety-nine percent of this limited partnership is owned by CoreStates bank. The partnership owns 15 buildings with 36 units of low-income housing in the 400 block of South George Street. The partnership invested $2.2 million in acquisition and rehabilitation, using low-income Housing Tax Credits, Historic Tax Credits, and low-interest financing from the Pennsylvania Housing Finance Agency (PHFA). Completed in the fall of 1992, the project has reached stable operation and is fully occupied.

The ***Southeast Historic Partnership*** is a limited partnership between CACDC (1% general partner) and York Federal Savings and Loan Association (99% limited partner.) The project involves 10 buildings with 21 apartments and 4 commercial spaces scattered throughout the Southeast Neighborhood. At a cost of $1.3 million, the project is substantially complete and in the rent-up phase. Stable occupancy is expected by July, 1996. Project financing included Historic Tax Credits, a Housing and Community Development Grant from the Pennsylvania Department of Community Affairs, federal HOME funds, property donations from the Redevelopment Authority, and low-interest loans from Mellon Bank.

The ***YorkBuild Limited Partnership*** is a limited partnership between CACDC (1% general partner) and York Federal Savings and Loan Association (99% limited partner.) The partnership was formed specifically for the purpose of owning and rehabilitating properties associated with the YouthBuild program. At present, work is nearly complete on 158 South Duke Street, including eight efficiency apartments and a public health clinic. Work is about to start on five apartments at 200 South Duke Street. This partnership, along with the YouthBuild program is responsible for the transformation of one of York's most blighted intersections into a safe and attractive place to live.

The ***SKW Housing Partners*** is a limited partnership between CACDC (1% general partner) and York Federal Savings and Loan Association (99% limited partner.) The partnership, which is in the process of being formed, is named in honor of Suzanne K. Williams, a woman who has devoted her life to working with low income families and low income housing. Construction is scheduled to begin in June 1996 on 36 units in 22 buildings throughout the southeast neighborhood, with concentrations on West Maple Street and East South Street. Project completion is expected by December 1997.

Organizational Structure of Crispus Attucks Community Development Corporation
and
Related Companies



Chairman SHAW. Thank you, Mr. Dempwolf.
Ms. Daly.

STATEMENT OF SHARON M. DALY, DEPUTY TO THE PRESIDENT FOR SOCIAL POLICY, CATHOLIC CHARITIES USA, ALEXANDRIA, VIRGINIA

Ms. DALY. Thank you, Mr. Chairman. I appreciate this opportunity to testify.

Catholic Charities agencies in the United States have over 250 years experience in helping people in need. Catholic Charities USA is the national association of 1,400 independent local Catholic Charities agencies and institutions that serve more than 11 million people annually of all religions and of no religion and of every social, racial, and economic background.

I am going to restrict my comments today to titles III and IV. Since your kind invitation, we have not had an opportunity to study title I, and we leave school choice issues to the capable hands of the U.S. Catholic Conference.

Over the next few years, the religious charities and nonprofits will be drowning in requests for assistance. In such a scenario, you would expect a representative of America's largest network of private social service agencies to be here pleading with you to pass legislation, encouraging more charitable giving.

So why am I here today raising concerns about this charity tax credit? Why aren't I leading the cheers? In our view, Mr. Chairman, the proposed credit will probably not increase charitable contributions, at least not by much, and yet, if it is financed by cutting programs for the poor, it will make poverty worse.

We have strong reservations about the proposed charity tax credit. First and foremost is financing. While H.R. 3467 includes no offsets, additional spending cuts in programs for the poor have been cited as the source of revenues.

In addition, we are concerned that the tax credit will promote costly competition among charities, shift necessary resources away from essential, but not means tested community services, further isolate and stigmatize the poor, and foster a bureaucratic culture among charities, but we do need to find ways to encourage charitable giving without further reducing government spending on the poor.

As you know, the welfare bill now in Congress would cut approximately $60 billion over 6 years. If you divide this figure by the number of religious congregations in the United States, each parish, congregation, and synagogue would have to raise almost $275,000 over and above its present commitments just to make up for these cuts in the welfare bill.

To understand why the nonprofit community cannot compensate for these massive cuts, look at the nationwide effort of the United Way, which is organized in every community in the Nation and involves tens of thousands of volunteers raising funds in tens of thousands of workplaces. The entire effort raises just over $3 billion. Yet, the proposed cuts in the welfare reform legislation alone are 20 times that number.

Given the magnitude of these figures, you can see why Catholic Charities USA, the Catholic Bishops, the Salvation Army, the Lu-

theran Social Ministry, the Council of Jewish Federations, and 40 other religious groups have written to you to object to the depths of these cuts and to say that they could not possibly begin to fill the gaps.

Some have argued that these cuts don't matter; that the poor can't be helped by government; and that compassion must be personal, challenging, and spiritual. That argument is only partly right. In fact, government programs, bureaucratic and secular as they may be, are a necessary lifeline for people who can't work and can't find a job—just ask anyone who lives on a Social Security check or an unemployment check. But government alone is not enough.

Poor people are often marginalized and isolated from the larger community just because of their poverty, and they need special help. In our tradition, we are taught to see Jesus himself in every person, but especially in the suffering poor. Even though our agencies receive Federal funds, they treat each person as a brother or sister in Christ, and by their kindness, courtesy, and loving attention, they show God's love to those who need our help.

Some make a flawed and facile argument about the lack of morality of the poor as compared to the rest of us. All too often today, as it was in the time of Jesus, poverty is seen as the same as in immorality, but as Jesus himself did in the Sermon on the Mount, we challenge that assumption.

If the welfare bill passes in the next 2 to 5 years, millions of poor families are going to find themselves ineligible for welfare, but still without jobs. Most of those parents will get jobs eventually, but unless there is some miraculous change in the economy, those jobs won't last long enough or pay enough for the families to make it on their own.

Half of the people who come to us now for emergency assistance aren't on welfare. After paying rent, heat, electric, and day care bills, there is nothing left for food, diapers, medicine, or even bus fare to get to work, and their chances of getting subsidized housing or day care are about as good as getting kidnapped by space aliens.

For millions of children, the current dysfunctional, broken, and disgraceful system at least keeps them alive, living in apartments instead of in shelters, eating at kitchen tables instead of soup kitchens. Their moms may be off and on welfare and in and out of work, but they are alive.

Our agencies are terrified about the time limits in the welfare reform bill. You can repeal the entitlement, but you can't repeal the laws of economics. At the lower end of the labor market where welfare moms find employment, the jobs are unstable, of short duration, with seasonable layoffs, frequent cutbacks to part time, and no vacation or sick days and usually no benefits. Typically, workers in these jobs cannot get unemployment insurance and rely on welfare.

We are very concerned about what is going to happen to these folks, Mr. Chairman, and we do not think the charity tax credit is going to be the answer. While we hate to turn down money, if this tax credit is to be financed by even more cuts in programs for the poor, we say, "No, thank you."

If the new credit is offset by more cuts in programs for the poor, the result is certain to be a net reduction in combined public and private spending for the poor. While it may stimulate some additional giving, it will also simply reimburse many people for contributions that they already make, and we can know that with mathematical certainty. At least some of those people who currently give to charity and take the deduction will give no more and get the credit. So the Treasury will lose $125 for each $200 tax credit. If that money comes from offsets from programs for the poor, then the charity will get the same contribution as before, but the poor will be worse off by $125.

We are convinced that the new credit would also exacerbate the problems of distributing charitable funds across geographical barriers. People in the affluent suburbs often raise more than they need, while those serving the poor in inner cities and rural areas operate on a shoestring and a prayer. It is one of government's legitimate functions to overcome this geographical disparity.

Many of those we serve are not poor. They are near poor, and by helping them, we prevent poverty. The way the bill is constructed, it would encourage charities to get out of prevention and into remediation, and we think that could be a bad mistake.

We are also concerned about the prospect of greater government entanglement in church affairs. While Catholic Charities agencies are accustomed to thorough audits, smaller religious organizations would have to adopt the same bureaucratic recordkeeping and means testing in order for donations to be eligible for the credit. It is not clear what advantage there would be to the government, much less to the poor, to replace HHS program officers with an army of IRS agents who will have to continually monitor which agencies are eligible under the credit.

Finally, under the provisions of the bill, charities would not qualify for the tax credit if they tried to influence legislation, as I am doing here today, or if they had engaged in litigation on behalf of clients or they had tried to register people to vote. Why would the Congress want to silence the voices of the churches and charities? In fact, it is shocking that Members of Congress would seek to keep the religious community out of the public policy debate on poverty. What purpose could be served by excluding them from sharing the benefit of their experience, and for what purpose should tax credit-eligible agencies be forbidden from registering people to vote?

In our Catholic teaching, voting is not just a right, but an obligation. We encourage everyone to register and vote, and we have never considered voter registration to be a subversive activity.

On the other hand, depending on how it is financed, we would support a charitable tax deduction for those who do not itemize, many of whom give a higher proportion of their modest incomes to charity.

Mr. Chairman, even if the proposed tax credit were financed entirely by closing tax loopholes or reducing corporate subsidies, we would have concerns, but if it is to be financed by further cuts in means-tested programs, we would have to oppose it.

Thank you for this opportunity.

[The prepared statement follows:]

Testimony Regarding HR 3467
The American Community Renewal Act of 1996

Presented to the House Subcommittee on Human Resources
and the Subcommittee on Early Childhood, Youth and Families
July 30, 1996

Presented by
Sharon M. Daly
Catholic Charities USA

Mr. Chairman, I want to thank you for the opportunity to testify before these Subcommittees regarding federal efforts to increase the role of private charities in helping the poor. Catholic Charities agencies in the United States have over 250 years experience in helping people in need. Catholic Charities USA is the national association of 1,400 independent local Catholic Charities agencies and institutions with 234,000 staff members and volunteers. Last year, Catholic Charities programs served more than 11 million people of all religions and of no religion and of every racial, social, and economic background.

I will restrict my comments today to Titles III and IV of the bill. Since your kind invitation to testify did not arrive until a few days ago, we have not had the opportunity to study Title I, and we leave school choice issues to the capable hands of the US Catholic Conference and the National Catholic Education Association who speak for the Church on education policy.

Over the next few years, the religious charities and nonprofits serving the poor will be drowning in urgent requests for critically needed assistance. In such a scenario, you would expect a representative of American's largest private social services agency to be pleading with you to pass legislation encouraging more charitable giving.

So why am I here today raising concerns about this charity tax credit? Why aren't I leading the cheers?

In our view, Mr. Chairman, the proposed credit will probably not increase charitable contributions, at least not by much, and yet if it is financed by cutting programs for the poor, it might make poverty worse.

Catholic Charities USA has strong reservations about the proposed charity tax credit. First and foremost, our concern is about financing. While H.R. 3467 includes no mechanism for offsets, many of the sponsors have cited additional spending cuts in programs for the poor as a likely source of revenues. In addition, we are concerned that the tax credit, while well intentioned, is likely to promote costly competition among charities; shift necessary resources away from essential but non-means-tested community services; further isolate and stigmatize the poor; and foster a bureaucratic culture among charities.

Over 200 Catholic Charities agencies nationwide provided various forms of services to more than 1.1 million children and adolescents (18 and younger) in 1994. More than 110,000 children and adolescents were provided foster care, group homes, or residential care, and adoption services were provided to 42,134 people in 1994. That same year, more than 233,000 at risk families received intensive services.

Through home health care and Meals on Wheels, our agencies help elderly and disabled people stay in their own homes and out of nursing homes. Through our sponsorship of special housing, we make safe and affordable housing available to senior citizens who live on fixed incomes. We assist thousands of elderly each year with utility assistance and with rebates on their property taxes and rents under the Circuit Breaker program.

Through special pre-ownership counseling services and through partnerships with banks and other lending institutions, we assist working individuals and families to become home owners for the first time.

We help resettle refugees from every part of the world and help them to become productive Americans. We help in the reunification of immigrant families and we help them learn the English language and to become citizens.

We help families get back on their feet when floods, earthquakes, fires, plant closings, or

downsizings leave them jobless or homeless.

We help keep families together through marital and family counseling, and we rebuild families that are torn apart by substance abuse or by domestic violence.

Almost two-thirds of our agencies have waiting lists for family and children social services. They simply do not have sufficient resources to meet the need. Over the past 15 years, one of the greatest challenges that our agencies have faced is the steady increase in hunger and homelessness in their communities. In 1981, fewer than 1 million people came to our agencies for emergency food and shelter. By 1994, that number grew to over 7 million people who received emergency help, a 700 percent increase!

The 1994 budget of all 1,400 agencies combined was $1.9 billion. Over 60 percent of the cash revenues of our local agencies came from government at the local, state, and federal levels. The reason for this high percentage of government funds is that our agencies are reimbursed by government agencies under contracts to provide services that government would otherwise have to provide. The balance of funding for our agencies is raised by the local churches, the United Way, and from fees paid by those who are able to pay for their services. And we often provide a "match" from these funds to pay the actual cost of services provided under underfunded government contracts.

The welfare bill now in Congress would cut approximately $60 billion over six years. This does not include cuts in housing programs or other non-defense discretionary programs. If one divides this figure by the 258,000 religious congregations in the United States with telephones, one can see that each parish, congregation, and synagogue would have to raise and spend almost $275,000 over and above its present commitments to make up for the cuts proposed by Congress in just these programs.

Another figure that may help Congress realize why churches and charities cannot pick up slack in these massive cuts is the nationwide effort of the United Way. This effort is organized in every community in the nation and involves tens of thousands of volunteers raising funds in tens of thousands of work places. The entire effort raises just over $3 billion a year. Yet the proposed cuts in the welfare reform legislation alone are twenty times that number.

Given the magnitude of these figures, you can see why Catholic Charities USA, the U.S. Catholic Bishops, The Salvation Army, Lutheran Social Ministry, The Council of Jewish Federations, and 40 other religious groups wrote Members of Congress last November to express their grave concerns about the depth of proposed budget cuts and to say that they could not possibly begin to pick up these cuts through private charitable giving. They can't raise a half trillion dollars over the next seven years to fill the gaps in services and income maintenance created by congressional budget cuts. In fact, last July, Independent Sector released a study prepared by Alan J. Abramson (Aspen Institute) and Lester Salamon (Johns Hopkins University) indicating that to offset the entire reduction in federal spending in fields where nonprofits are active, private giving in the year 2000 would have to be 50 times greater than it has been in the recent past!

For more than a year, the welfare debate has focused almost exclusively on personal responsibility, with hardly a mention of social responsibility. It has talked about charity, but has been silent about social justice. The Catholic Church, from the Pope on down through the bishops, teaches that government must respect and guarantee that individual rights are respected, including the right to "suitable employment for all who are capable of it," to just and adequate wages, and to social welfare benefits when jobs are not available or people are not able to support themselves and their families. Government does not have to do everything, but the national government's role is to ensure that the minimum standards are available to all: jobs, food, housing, health care, and education.

This is not to say that there is no need for welfare reform or other reforms. We do not defend the current system, nor do we oppose intelligent reforms. For example, before the President's welfare proposals or the *Contract With America,* Catholic Charities USA called for a thorough reform of the welfare system, including work requirements for parents and strict requirements for teen parents to stay in school and to live under adult supervision. (CF. *Transforming the Welfare System,* Catholic Charities USA)

Many have argued recently that the poor cannot be helped by government programs and that

"compassion" must be personal, challenging and spiritual. That argument is only partly right. In fact, government programs, bureaucratic and secular as they may seem, are a necessary lifeline for people who can't work or find a job. Just ask anyone who lives on a Social Security check or an unemployment insurance check.

On the other hand, government assistance alone is not enough. It's necessary but not sufficient. It's not sufficient for two reasons:

First, even the combination of AFDC and Food Stamps is not enough in any state to bring a family up to the poverty line, and the value of welfare benefits has dropped by almost half due to inflation. Moreover, many states are now actually cutting AFDC benefits in addition to the losses caused by inflation.

Second, no one lives by bread alone; and poor people, often marginalized and isolated from the larger community because of their poverty, need special help. In our tradition, we are taught to see Jesus himself in every person, but especially in the suffering poor. Our agencies try to treat each person as a brother or sister in Christ and by their kindness, courtesy, and loving attention, to show God's love to those who most need our help.

While our agencies do not use federal funds to evangelize or proselytize, we can fulfill our religious mission by the very personal and challenging attention we pay to the mental and emotional as well as material problems of poor people. By respecting the God-given dignity of each person, we give them a glimpse of God's infinite love.

Many of those who come to Catholic Charities for help are spiritually bereft. Their suffering from poverty, disease, discrimination, and the loss of loved ones has made them question God's existence, or like Job, argue with God that they do not deserve such suffering.

Some social critics make flawed and facile arguments about the lack of morality or responsibility of the poor as compared to those of us with adequate incomes. All too often today, as it was in the time of Jesus, poverty is seen as the same as immorality. But as Jesus himself did in the Sermon on the Mount, we challenge this assumption based on the millions of poor people we serve whose goodness and virtue would shame most of us in this room.

The reason poor people need the personal, challenging, and spiritual help of religious organizations is, in part, because of the condescending, contemptuous and cruel treatment they so often receive from some welfare departments, landlords, employers, school systems, and other pillars of the community.

But counseling and kindness alone can't pay the rent or put food on the table. Religious charities supplement the role of government; we cannot substitute for government. As our bishops wrote in their 1995 *Political Responsibility* statement:

> "As advocates of both subsidiarity and solidarity, we also welcome the dialogue over how pubic and private sectors, government and community institutions can work together for the common good. What are the responsibilities and limitations of business and labor, churches and charities, and the various levels of government in protecting human life, enhancing human dignity, and pursuing social justice? Our tradition and experience teach us that markets have both advantages and limitations, that government is neither the solution nor the enemy, that private charities have essential roles, but cannot substitute for just public policies." (pp.6-7)

If the welfare repeal bill is signed into law, our agencies expect to be deluged by requests for emergency assistance for families facing eviction because they cannot pay their rent.

Over the next two to five years, millions of poor families will find that their eligibility for welfare will run out even though they have no other income -- or only minimal support -- from earnings or child support.

Within the time limits, most parents on welfare will find jobs, but unless there is some miraculous change in the US economy, those jobs won't last long enough or pay enough for the families to make it on their own.

Even now, under current welfare rules, half of the people who come to us for emergency

assistance are not on welfare. Many have found that after paying rent, heat, electric, and day care bills, there's nothing left for food or diapers or medicine or even bus fare to get to work. If they are not on welfare, their chances of getting subsidized housing or day care are about as good as getting kidnapped by space aliens.

Over and over our agencies work with parents who have to go on welfare to avoid eviction and to get help with day care. If they are lucky they can get subsidized child care for a year after they go off AFDC. The problem is that one year later they are no more able to afford both rent and day care. It they get behind in the rent, they are homeless. If they get behind with the baby sitter, they wind up out of work. For millions of families, AFDC is a temporary but regular safety net during layoffs and when affordable day care is not affordable.

For millions of children, the current dysfunctional, broken, disgraceful welfare system at least keeps them alive, living in apartments rather than in shelters, eating at kitchen tables rather than at soup kitchens. Their mothers are on and off welfare, in and out of work, and the churches and charities help to fill in the gaps so that a bag of groceries gets the family through the week until the Food Stamps come and the parish pays the electric bill so the lights aren't turned off before the welfare check arrives.

The nonprofit social services agencies and the religious community comfort and counsel the mothers who are on the brink of despair because they are laid off before they can buy school clothes for September. They help to find a day care provider who will wait to get paid until after the first pay check comes. They provide a security deposit so the family can move closer to the mother's job.

The staff and volunteers in our agencies are terrified about the time limits in welfare reform. You can repeal the entitlement, Mr. Chairman, but you can't repeal the laws of economics. At the lower end of the labor market, where welfare moms find employment, the jobs are unstable, of short duration, with seasonal layoffs, frequent cutbacks to part-time, no vacation or sick days, and usually no benefits. Typically, workers in these jobs don't qualify for unemployment benefits, so AFDC has been their lifeline.

What will happen two years from now when we begin to see large numbers of families who will never again be eligible for welfare, who don't qualify for unemployment insurance, and can't pay for rent or child care with Food Stamps? Poverty and dependency are terrible, but there is something worse: destitution, homelessness, hopelessness.

Throughout the last two years, we have heard the assertion that the welfare time limit would motivate parents to find and keep jobs and that the churches, charities, and nonprofits would take on those few families not exempted by the state from the time limits. We hope and pray that you are right, Mr. Chairman, but no one who works closely with the poor in our agencies would bet on it.

In addition, unless the President uses his veto pen, the religious charities will soon be inundated with pleas for help from the legal immigrants who will be banned from most federal programs. Moreover, the poor who depend on Food Stamps will need more help from us as they face a steadily growing gap between their monthly benefits and the actual cost of food.

Now the proposal comes to help the churches and charities to take over even more of the care of the poor by a new charity tax credit. Well, we hate to turn down money, but if this tax credit is to be financed by even more cuts to programs for the poor, we say "no, thank you."

If the new tax credit is offset by more cuts in AFDC, Food Stamps, WIC, child nutrition or other programs for the poor, the result is certain to be a net reduction in combined public and private spending on the poor.

The new credit may stimulate some additional giving, but it will also simply reimburse many for contributions they already make. Others may not increase their contributions, but merely shift them from one charity, such as a home for the elderly, to another, such as a shelter for addicts and alcoholics.

We can know with mathematical certainty that the net result for the poor will be less money spent to help them. If I donate $267 now to charity (28 percent bracket) and can itemize, after the tax deduction the net cost of the $267 to me is about $192. Under the proposed credit, it would cost me only $67. At least some, and probably many, people would not increase their

charitable giving; they would just pocket the tax subsidy. Yet, the Treasury would lose an additional $125 because of my credit and those funds would have to be offset. If the offset comes from programs for the poor, the poor will lose $125, and the charity will still get the same contribution as before. The charity gets no more and the poor are worse off by $125.

We are also convinced that the new credit would exacerbate the already serious problem of a mismatch of needs and resources. Private giving is largely local with religious organizations and other nonprofits in affluent suburbs able to raise more than they need, while those serving the poor in inner cities and rural areas are always operating on a shoestring and a prayer.

Few institutions in the US have the capacity to offset these geographical disparities, and it is one of government's legitimate functions. The distribution problem is likely to result in a greater reliance on direct marketing and other fund raising by charities from the general public. This is one case where competition and advertising costs are unlikely to promote efficiency.

We also serve people who are not technically poor to help prevent them from falling into poverty, and many of our organizations would not qualify under the credit because they don't spend 75 percent of their money on the poor.

If Catholic Charities USA and other charities shifted all of our resources to serving the poor, poverty would increase, not decrease. Preventive health care is less expensive than treatment; the same is true with fighting poverty. Much of our work prevents poverty.

Segregating the poor would stigmatize them further, but it would not help them. There are very good reasons why we don't want to segregate the poor. In caring for the elderly, for example, socialization is vital, and it would be destructive to isolate the elderly poor. We've learned from public housing that concentrating large numbers of poor people in a small area is destructive because a small number of criminals can terrorize and set the tone for an entire community. You'd think we'd learn a lesson.

According to the directors of substance abuse programs under Catholic Charities auspices, in most communities, three-month waiting lists for substance abuse treatment are common because of a shortage of funds from federal and state agencies. Frequently, Catholic Charities staff are unable to bring about long-term positive changes in troubled families because treatment is not available for addicted or alcoholic parents or teenagers. No matter how powerfully motivated, many people need professional treatment, not just religious inspiration and support.

A provision in the Senate welfare bill will only exacerbate the problem by denying Medicaid and other means-tested benefits to people convicted of drug offenses. Under H.R. 3467, religious organizations would be able to incorporate spiritual support in their federally funded programs. Of course, we would not object to greater flexibility in this area, but if people trying to overcome drug problems cannot receive cash assistance, Food Stamps, Medicaid, child care, housing subsidies or any other government aid, offering them government subsidized spiritual guidance alone is not likely to be effective.

We are also concerned by the prospect of greater government entanglement in church affairs. Catholic Charities agencies are accustomed to thorough audits of our programs that are funded with government funds, but it appears that to be eligible under the new credit even small religious organizations would have to adopt the same bureaucratic record keeping and means testing of government programs. Or -- perish the thought -- we might need more than one expensive and complicated accounting system -- one for HHS and state governments and another for the IRS.

It's not clear to me what advantage there would be to the government, much less to the poor, to replace HHS program officers and auditors with an army of IRS agents who would have to continually monitor which charities qualified under the tax credit.

Finally, under the provisions of H.R. 3467, charities would not qualify under the tax credit if they had engaged in any activities for 1) the purpose of influencing legislation: 2) litigation on behalf of clients; or 3) voter registration, public policy advocacy, or public policy research.

It is very difficult to understand why the Congress would want to silence the voices of the churches and charities whose very competence and contributions you would recognize in this bill. In fact, it is shocking that Members of Congress would seek to keep the religious community that serves the poor out of the public policy debate on poverty. What public purpose

could be served by excluding those with the greatest knowledge from sharing the benefit of their experience with public policy makers and with the public itself?

And for what purpose should tax credit-eligible agencies be forbidden from helping to register people to vote? In our Catholic teaching, participation in public life, including voting, is not just a right, but an obligation. Catholic Charities and other nonprofits encourage clients, staff, and volunteers to register and to inform themselves about issues and candidates. We have never considered voter registration to be a subversive activity. Even with our help, the poor are less likely to vote than higher income people. Is there some reason to make it even harder for them to participate?

On the other hand, depending on how it is financed, we would support a charitable tax deduction for those who do not itemize, many of whom give a high proportion of their modest incomes to charity.

Even if the proposed tax credit were financed entirely by closing tax loopholes or reducing corporate subsidies, we would have concerns about the proposal. If it were to be financed by further cuts in means-tested programs or programs that are primarily for low-income people, we would have to oppose it. I do not think you will find much support for this proposal from those who actually serve the poor. Few would want to see their own budgets increase at the direct expense of the very people they serve.

Thank you for the opportunity to share our views on the proper roles of government and church-related welfare agencies in providing for the welfare of the people of the United States, especially for the poor and the vulnerable among us. Our 1,400 agencies stand ready to show you the type of work that we do and to introduce you to the people whom we serve.

Chairman SHAW. Reverend Jackson.

STATEMENT OF REV. EARL W. JACKSON, SR., NATIONAL DIRECTOR OF COMMUNITY DEVELOPMENT, CHRISTIAN COALITION, CHESAPEAKE, VIRGINIA

Rev. JACKSON. Mr. Chairman, Members of the joint Subcommittees, thank you so much for the opportunity to come before you today. I have to tell you, however, that I come conflicted. My father, who has been the most important influence in my life, is deathly ill, and I struggled with the decision to come, but felt that I should come because he is concerned about his children and his grandchildren, and that this bill speaks to their concerns, their welfare, and their well-being. So I have come today, and if you will allow me, I want to dedicate what I have to say to my dad, the Reverend William Jackson.

I come today to offer testimony about a bill that could, in my view, provide incentive to countless millions of Americans to once again become involved in projects to renew and uplift the lives of their neighbors, to help our people to reach out in compassion to help them. Big government can't do that. Big government can't cook a home-cooked meal for my dad. Big government is not the solution.

We can meet the needs of the disadvantaged while not breaking the back of the American taxpayer, and this bill will provide incentives for people to renew their involvement in community-based programs and local help organizations.

This legislation could perhaps spur the private sector with a commitment to rebuild our inner cities. It could help school children to excel. It could create a tidal wave of giving to help the needy who are struggling for food or clothing or what have you.

I have come today in spite of the fact that my father is ill, and I am going to be leaving and going right back to him when I leave. I have come today because in my view, this bill is vision, and if you will allow me to quote someone wiser than I, "Where there is no vision, the people perish."

If I can turn that around, I would like to say where there is vision, the people flourish. We can create a future filled with hope and opportunity driven by the energy, creativity, and innovation of the American people, not by Federal bureaucracy, but by faith that this great Nation is not a happenstance of history, but ordained to a great destiny which beckons every citizen.

The comprehensive nature of this bill when passed and implemented will take us toward that destiny. Educational opportunity is also critical for the survival of our most precious resource, our children. Simply stated, choice in education is crucial. Parents must have the option of selecting the best public, private, or parochial school available. We must work for a day when quality education is available for all students of all backgrounds and income levels.

We have heard again and again that we are going to improve the public schools, but it never happens. Parents who have children attending dysfunctional schools must have the option of placing their children in schools that produce and encourage academic and career excellence.

Finally, allow me to speak for just 1 moment as a pastor, the pastor of New Cornerstone Exodus Church in Boston, where I have been deeply involved in social policy for a very long time, long before I joined the Christian Coalition, long before there was a Christian Coalition.

Some people would say there is no moral standard in America; that moral values should be fluid and change with the times. I would remind us all that slavery, Jim Crow, and the sin of racism were condemned at least 3,000 years ago when God chose David to be king, and Samuel looked at all of his sons and they were all fine-looking young men, and when he finally chose David, uttered these words, "God sees not as man sees. God does not look at the outside. God looks at the inside. God looks at the heart."

Let us be reminded that our Judeo-Christian ethic, for any feminists who might be in the room, asserted the dignity and equality of women 2,000 years ago, when Paul said, "In Christ, there is neither male nor female." That wasn't a creation of the seventies or eighties. These and other principles rooted in faith are legitimate and rational in the public debate, but in many instances, the public expression of faith is trampled upon.

In my 20 years of ministry, I know of no instance where the Federal Government has made an alcoholic throw down his bottle, made a gambler give up gambling, made a drug addict dry out, made men who were in and out of jail come out and become responsible husbands and fathers, made women on welfare become gainfully employed, and create fine entrepreneurs such as Star Parker, or made angry and bitter people come to peace with themselves and others. I have never seen the Federal Government do that, but I have seen it done in church after church, and I would urge us to acknowledge that faith must play a vital role in the lives of the American people, and we must remove the obstacles for churches and local help groups and private charities to play an increasing role in the revitalization of our cities and schools.

Therefore, in my view, the tax credit proposal is absolutely vital to this legislation and to our future. According to the National Center for Policy Analysis, 94 percent of all shelters for the homeless in the United States are operated by faith-based charities or private sector businesses. What is more, 80 percent of all low-income residents in this country turn to private sector help groups first when facing a crisis, and those help groups are first and most often the church.

We must create additional incentives for Americans to strengthen these outreach programs. We must do everything in our power to assure that if we carry through with our promise to the American people to reduce the role of Federal Government that no man, woman, or child who needs a helping hand is lost. This bill can serve as a bright, shining light. Please, please don't allow it to be hidden under the shadow of congressional partisanship, but set it up on a lamp stand of congressional and Presidential cooperation, so that it can serve as a light to lead our Nation down a wonderful path of renewed freedom of opportunity, prosperity, and goodwill. We must stretch out human hands of caring, not Federal hands of bureaucratic control.

Well, gentlemen and ladies, you are in my prayers for wisdom and the speedy passage of this bill. I really hope that it passes, and I thank you for this opportunity to address you, and may God be good to each and every one of you, regardless of your party and regardless of your position on this bill.

Thank you.

[The prepared statement follows:]

Reverend Earl W. Jackson, Sr.
National Director, Community Development for Christian Coalition
and Pastor, New Cornerstone Exodus Church, Boston, MA

Mr. Chairman, members of the joint subcommittees, distinguished panelists, it is a unique honor to be invited to share with you my thoughts about your exciting legislation, H.R. 3467, "Saving Our Children: The American Community Renewal Act of 1996."

This is my third time to appear before Congress in the last several weeks. I recently offered testimony in the wake of a rash of fire bombings of African-American churches and I have seen not only heartfelt concern for what's happening to our houses of worship but I have seen this body react swiftly in attempting to quell this senseless violence against people of faith.

I have visited a number of towns where these church burnings have occurred and I have seen, first hand, how good people of every age, color and creed have pulled together to heal these wounds of hate and bigotry.

I come before you today to offer my testimony about a bill that could inspire countless Americans to once again become involved in projects for renewal that could uplift millions of lives. Here, we are responding to general social decays and with a specific plan, not just for stopping decay in our cities and towns, but also for inspiring a change in the hearts of people to reach out in compassion to help their neighbors rather than thinking that big government will provide all the solutions. With this bill there is vision. Without vision our people will perish.

We must derive solutions to the age-old problem of meeting the needs of the disadvantaged while not breaking the back of the American taxpayer. This bill would provide incentives for people to renew their involvement in community-based programs and local help organizations. This legislation could provide the spark for a wildfire of private sector commitment to rebuild our inner cities, help school children to read or provide food and clothing for the needy.

We must create a future which is filled with hope and opportunity driven by the energy, creativity and innovation of the American people, not by federal bureaucrats. Inspired by the faith that this great nation is not a happenstance of history, but ordained to a great destiny which beckons us, but to which we have not yet arrived. The comprehensive nature of your bill, when passed and implemented, will take us toward that destiny.

Educational opportunity is also critical for the survival of our most precious resource, our next generation of children. Simply stated, choice in education is crucial. Parents must have the option of selecting the best public, private or parochial school available. We must work for a day when high quality education is available for all students of all backgrounds and income levels. Parents who have children attending dysfunctional schools that can no longer produce competent graduates must have the option of placing their children in schools that encourage excellence and ambition.

Finally, allow me to shed for just a moment my title as National Director of Community Development for the Christian Coalition and speak to you as a pastor--a pastor who has been on the front line in matters of social policy long before I joined the Christian Coalition.

Some people would say that there is no moral standard in America, that moral values should be fluid and change with the times. I would remind us all that slavery, Jim Crow and the sin of racism were condemned at least 3,000 years when God chose David to be king. "God sees not as man sees, God looks at the heart." The women's movement can look back 2,000 years to the scripture that spoke about what some might call a feminist principle: "In Christ there is neither male nor female."

The point I am driving at is simply this: These ancient principles rooted in faith have served us well for centuries, and at least deserve a place at the table of public debate. They should not be shut out, but in many instances, the public expression of faith is trampled upon.

Several years ago, a well-known and respected organization denied me the chance to speak to a

meeting of mothers and children about crime prevention. Why? For no other reason than the fact that I am a Bible-believing pastor. A large company, whose name you would recognize, agreed to fund a traditional values program for the school system until corporate heads learned the values program was sponsored by a pro-life, pro-family church. The program was already in place at several schools in Boston.

We offered a covenant which elementary school students signed agreeing to stay away from alcohol, drugs, gangs and violence. At the end of the covenant, we quoted from the Declaration of Independence. The principal of the school banned the covenant because the mere mention of a "creator" was "too controversial." It was astounding that we could not use a quotation from one of our founding documents because one school official though it violated separation of church and state.

Faith plays a vital role in the lives of millions of Americans and if we remove the obstacles for churches, local help groups, and private charities to play an increasing role in the revitalization of our cities and schools, we can accomplish much. According to the National Center for Policy Analysis, 94 percent of all shelters for the homeless in the United States are operated by faith-based charities or private sector businesses. What's more, 80 percent of all low income residents in this country turn to private sector help groups first when facing a crisis. We must create additional incentives for Americans to strengthen these outreach programs. We must do everything in our power to assure that if we carry through with our promise to the American people to reduce the role of the federal government, that no man, woman or child who needs a helping hand is lost. H.R. 3467, Saving Our Children: The American Community Renewal Act, offers what could be the beginning of that promise and vision. This bill can serve as a light to illuminate our hearts in a new way. Thank you for the opportunity to address this hearing today.

Chairman SHAW. Thank you, Reverend.

Mr. Cunningham may inquire.

Chairman CUNNINGHAM. Thank you, Reverend Jackson. I lost my dad about 1½ years ago, and you can't go back and spend time with him. So God bless you and spend the time with your dad.

Ms. Daly, I have no doubt that you have target goals, and I think your goals are the same as ours on our side, and that is to make sure people get off of welfare and they get help; that education has the support that we need. I have no doubt about that at all. I think deciding how we get there is where we totally disagree, and I think that is a legitimate debate.

I don't think most of the people, Republican or Democrat, feel that spending more money on a system makes it better. I think over the last many years, we have failed our people in trying to achieve our common goal. I think it is a mass failure but not total, because there are some wonderful things that happen in welfare.

There are some wonderful things that happen in our public school systems and private school systems, but overall, the public and, I think, our children are crying for help and reform.

Let me give you just a couple of examples. I don't plan on converting you, but I want to explain why we are coming at you for a direction. Time after time, you hear the members on the panel say that government is not the big solution. Everything that we have argued about in this 104th Congress about government shutting down and cuts and education and other programs is about power. It is about the power of the Federal Government to spend money and control people's lives. That is the failure. It is because that has expanded so far that government has become so inefficient.

Let me tell you what I think a real cut in education is. You take the President's direct lending program, the government lending program to control against spending, and the President wants basically all direct spending and government loans to emanate out of the Federal Government, thereby making the Federal Government the largest lending institution in the United States. Capped at 10 percent over the year, it can't account for $100 million. It costs $1 billion, according to GAO, just to administer above letting the private enterprise do it, and it will take $3 billion to $5 billion to collect it.

Spending more money, we took the savings and we increased Pell grants. We increased access to student loans by 50 percent, but yet, there are people who say we cut education.

Cutting education is wasting the money to let government have control of special interest groups. That is where we differ.

Ms. DALY. May I respond, Mr. Cunningham?

Chairman CUNNINGHAM. In just 1 second.

If we can actually get more money down into the classroom—do you know that in some areas we get as little as 23 cents on a dollar down to the classroom, and in welfare, we get less than 30 cents? That is cutting to me, and if I can make that more efficient and better—let me go through one other program, AmeriCorps, a great idea, except that when you pay $29,000 per volunteer, and in Baltimore, it was $50,000 per volunteer, that is wasting money. I would rather take that and put it to poverty children, to increase it even

more, or choice or access to the education system. That is cutting, and no matter what we as a Republican Congress put out here as a number, the President will put a higher number and say we are cutting. That is inefficiency.

In the meantime, of that increased spending, we have driven this country into bankruptcy. We are paying nearly $1 billion a day on just the interest on the national debt because we spent so much and the government is so big.

So we are saying we can actually give you more by taking government regulations off your back, by having less paperwork, by giving you the function at a State level. Those that want power in Washington will fight that, and you can respond.

Ms. DALY. Mr. Cunningham, I am not here to talk about school choice or education. As I mentioned, those are within the jurisdiction of the U.S. Bishops Conference and the National Catholic Education Association.

My organization, Catholic Charities USA, works with poor people. We don't do education, but we do child care, and we run shelters, many of those that the Reverend was talking about earlier. What I am here to tell you is not that the religious community can't do more, but that we can't make up for the level of cuts that are pending just in the welfare bill, just that 60 billion dollars' worth of cuts.

Food stamps is actually a pretty efficient program. There is a whole lot of fraud and abuse that we need to work on, but every time the Federal Government cuts the Food Stamps Program, poor people wind up coming to our soup kitchens and our parish pantries earlier in the month. So, instead of just coming the last week in the month when they have run out of food stamps, they are going to be coming after this bill passes at the middle of the month, and so we are going to run out of groceries and we are not going to have enough money at the soup kitchens.

Chairman CUNNINGHAM. Reclaiming my time. Did you see "60 Minutes" or the "20/20" documentary on food stamps where they estimate up to 50 percent fraud, waste, and abuse?

Ms. DALY. Well, I think that is absurd.

Chairman CUNNINGHAM. We need to clean up that system to get the funding to the people that deserve it.

Of the 5 million people on welfare, there is an average dependency duration of 13 years. We need people working that can and focus on the people that really need it. That is the cut of squandering and wasting the money.

Ms. DALY. We agree, Mr. Cunningham, but we worry what is going to happen to those people who are no longer eligible for welfare after 2 years or 5 years, for the rest of their lives—for the rest of their lives.

Chairman CUNNINGHAM. Reclaiming my time.

There is still, even after the 5 years, Medicaid. There are other systems to pick up the people. It is just that they are not going to collect AFDC.

My time has run out.

Ms. DALY. They can't pay the rent with a Medicaid card or food stamps.

Chairman CUNNINGHAM. Then let them work.

Ms. DALY. If they can, I think that would be great.

Chairman SHAW. Mr. Fattah is recognized.

Mr. FATTAH. Thank you, Mr. Chairman.

Let me first thank everybody on the panel. I wish Reverend Jackson's father well, and I welcome Ms. Parker.

I understood your point about Damian Williams, but I think we can all take anecdotes. I don't know if we would use the Menendez brothers as advertisements for private schools either.

We need to focus on the broad picture. We have 55 million children in America in public schools, and we have 8 million in private schools. The vast majority of the public thinks that their public school is doing pretty well, and there are pockets of problems. There are problems in the poorest communities.

There is a lot being said about the inner city, but some of our worst problem areas in terms of public education is in the rural areas of our country in which there is a desperate need for additional resources. I would hope that the Subcommittee as they consider this bill look at the fact that there is only a 10-percent set-aside for rural areas, and I don't think that is appropriate.

Even though I represent an urban area, I know a lot about, at least in Pennsylvania, the fact that there are other areas in our State that desperately need assistance.

I wanted to focus my question, first, to the gentleman of the Crispus Attucks, Community Development Corp. Let me thank you for the great work that you are doing.

I note that you made mention of how important Youth Build is, and Youth Build is a program that is also beneficial in my city and in cities around the country where young people are being engaged. I will work in terms of making sure that those additional funds are made available.

The great work that you have done, I would assume, has been aided by a number of programs at the Federal level. I would assume you get assistance from the Community Development Block Grant Program. Is that accurate?

Mr. DEMPWOLF. We do get assistance from Community Development Block Grant. This year, we got about $130,000 in block grants in a $4 million budget.

Mr. FATTAH. Your $4 million budget, can you just break out big chunks of it? Percentagewise, how much of it is Federal support, State support, and local support?

Mr. DEMPWOLF. I would say that perhaps 30 percent is Federal. Perhaps another 20 percent is State and local, and the remaining 50 percent is private.

Mr. FATTAH. OK. My good friend, Bob Woodson, has left, but notwithstanding the fact that we disagree on a lot of things, one of the things we do agree on is that Community Development Corp. at the neighborhood level can make a difference, but they can't make a difference absent resources. I mean, in order to rehabilitate a deteriorated, vacant home and put it back into shape so someone can live in it, you have to have the wherewithal to do that.

Mr. DEMPWOLF. That is absolutely correct.

Mr. FATTAH. So resources are important, and I think that the point that is being made by Ms. Daly from Catholic Charities, which has had a long history of working and trying to respond to

the needs of people in our country, is that there is a concern. The Federal Government provides very little of its resources to help poor people, even though the convention of wisdom around here somehow is that we are spending goo-gobs of our money on helping poor people.

AFDC, which Ms. Parker said she benefited from for, I think, 3 years, you said?

Ms. PARKER. I had been on welfare for 3½ years, and when you call it a benefit, I don't know that that would be appropriate.

Mr. FATTAH. We will get back to that, but got assistance from. We spend about a penny out of every Federal dollar on our main welfare program, even though the view around here is somehow we are spending too much. One penny out of every dollar is not a great deal.

Pete Peterson's book, "Facing Up," when he talked about what we had to do to balance the Federal budget, he said that one of the things we had to do is face the fact that most of the money that we are providing to help people is not going to help poor people. It is going to help Americans who are fairly well off. Until we get to addressing that issue and stop, I think, unfortunately trying to suggest that the problem with poverty in this country is that poor people have too many resources from the Federal Government, I think we are heading in the wrong direction.

The issue that is before the Congress now in terms of this bill is a proposal that has some good parts to it. I think that it is very useful that we could use the Tax Code in ways that could spur investment in poor communities. Again, I would not make the assumption that all of those communities are in inner-city areas. They are not.

Part of the hidden poverty and pain of it in our country is out in places where there aren't the "60 Minutes" and the great big city newspapers that cover some of the real pain and agony that people face in our Nation, but we have to look at some of the other parts of this bill.

This requirement that charities who receive this assistance not be involved in voter registration or public policy research or comments of any kind seems to take away what may be constitutionally protected freedoms that these entities should have, but more important than whether they are constitutionally protected, it just seems that it runs contrary to public policy that we would want groups who are at the ground level working with people stifled.

I would be interested in your comments on that, given your work.

Ms. DALY. Mr. Fattah, if that provision—

Mr. FATTAH. Excuse me. It is "Mr. Fattah."

Ms. DALY. I am sorry. "Mr. Fattah."

Mr. FATTAH. That is all right.

Ms. DALY. If that provision were adopted in the bill and our organizations received contributions for which people got the tax credit, none of us could be here today. We wouldn't have been able to spend any of our money doing the research, reading the bill, doing the analysis, collecting data, traveling here or coming here to talk with you.

Even more important, I think the kinds of people who work in our local agencies with poor people in shelters, in soup kitchens, with battered women, with teenaged moms, they would not be able to share with their local city council people and State legislators and Members of Congress their own experience because this doesn't just say you can't spend a lot of money. It says you can't engage in these activities at all, and that is very hard to understand.

Mr. Cunningham was saying earlier that what this debate has been about in this Congress has been about power. Well, that is right, and poor people are not registered to vote. That is why they have no power in these discussions.

To say that organizations that get tax contributions from them should not be able to register them to vote, I think that is an outrage.

Mr. FATTAH. Thank you very, very much.

Ms. PARKER. May I make a comment, Mr. Chairman?

That particular provision is for organizations like Union Rescue Mission, organizations like His Nesting Place, who have no interest in public policy, anyway, as 80 percent of their revenues are already being used to help the poor. It has nothing to do with lobbying efforts because other organizations in this country have chosen to lobby with their money.

Someone mentioned earlier some of the organizations. I think the name of United Way came up. After the Los Angeles riots, we found out that much of the revenues that the United Way was receiving from the urban communities were leaving the communities and they weren't reinvesting that money.

What this particular private charity act does is help people like myself, taxpayers who want their specific dollars to go to the organization right up the street from their homes that is helping the Damian Williams in our communities.

You mentioned the rural communities. There is a particular rural community in Mississippi I just visited. In fact, I was one of the speakers there. It is called Carey Christian Center. We have the reformed churches in this country, various congregations across this Nation, that have adopted one city in the middle of nowhere, USA, in Mississippi, and they have built a hospital. They brought in doctors. They have dentists there.

Helping the people in the community, yes, they have giveaway programs like food and clothing, but they also have job training attached to it, and what we have right now in this system is where government is competing with them and telling them they cannot come to this table, anyway, because they are regulated through our tax regulations already.

So I don't know that the arguments here are valid for what we are discussing in urban communities and rural communities with the specific emphasis on the 100 renewal areas. We are only talking 100 renewal areas.

Mr. FATTAH. Ms. Parker, you are saying you read this provision that says that organizations could not engage in voter registration, political organizing, public policy advocacy, or research or litigation on behalf of the poor as being restricted to certain organizations?

Ms. PARKER. No. The ones that would receive these dollars. We are talking about organizations that are helping organizations in

the community. They are already based in Los Angeles. For instance, Helpers for the Homeless and Hungry, they do none of those things. All they do is help—

Mr. FATTAH. Excuse me. I am just seeking clarity here. This bill says that qualified charities, and that would mean any charity that was qualified in receipt of these contributions, would be restricted from these activities. You don't think that that is a good thing, I would take it.

Ms. PARKER. Do I think that that is a good thing? I think that there are specific charities in this country—

Mr. FATTAH. You think that certain ones should be restricted and certain other charities should not be restricted?

Ms. PARKER. We already have that. We already have that situation in this country. We have people that specialize in certain work, and depending on whether you are a 501(c)(3) or a 501(c)(4), they have distinct things that they can or cannot do.

What this particular legislation is asking for is only organizations that have the specific interest in helping the poor, not organizations that use—

Mr. FATTAH. That is not what it says.

Ms. PARKER [continuing]. A lot of their money in public policy, but specific emphasis on helping the poor; that those would be the ones that would get this particular credit.

Mr. FATTAH. Thank you.

Rev. JACKSON. Congressman, if I may, it just seems to me—and I hope you will excuse me after this, Mr. Chairman, but if I may, I see that as a rather small matter because you know and I know that if an organization wants to set up something separate, if people within that organization want to say, OK, we are not going to be organization X, but some of us are going to be organization Y because we are concerned about certain issues and we are not going to use the resources of organization X, I mean, it happens all the time.

So, to suggest that somehow people would be muted and wouldn't be able to express themselves—

Mr. FATTAH. I understand your point, Reverend, that there may be creative ways around such a requirement.

Rev. JACKSON. I hope that is your only objection, in which case I am sure it will just fly right through.

Mr. FATTAH. Reverend, I appreciate your comments.

Chairman CUNNINGHAM [presiding]. The gentleman's time has expired.

I would like to be able to comment all day, but we do have another panel and we have other folks. The Chairman has let the time go through.

I would recognize Mr. Talent from Missouri.

Mr. TALENT. I have a quick question for Ms. Daly, if I could.

If I understand your testimony correctly, you are not commenting on provisions outside the charitable tax credit. Is that right?

Ms. DALY. That is correct.

Mr. TALENT. Did I understand your correctly that if your organization felt certain that the money used to pay for this came out of Defense or someplace that you approved of and if the problem were

dealt with regarding the lobbying, that you would be supportive of the charitable tax credit? Are those the two objections you have?

Ms. DALY. Well, we still would have some concerns about the danger of getting charities who now serve more broadly than just the poor to try to concentrate their efforts and restructure, as the Reverend Jackson was saying.

Some of the best programs in this country that help the poor help everybody else, too, who is eligible. They don't means test, and this is typical of all the programs that help the elderly. We try not to segregate the poor elderly from the rest. That is also true of people with AIDS.

We found, in fact, concentrating poor people in housing projects has not been a very good idea. You, from St. Louis, should know this above all.

We think you need to have programs that some poor people are served by them and then others might pay and then others get a partial subsidy. This tax credit could, I think, divert resources in a way and change the way services are delivered.

We are also very concerned about the possible intrusiveness of the IRS. You all are celebrating today the IRS reform bill because the American people have found that the IRS can be very intrusive.

If you have this tax credit, you are going to have to have revenue agents checking all the time to see if the shelter down the street is still spending 75 percent of their money on the poor. So the level of intrusiveness is going to be considerable, and many of us have concerns about that.

I don't think we would outright oppose it because of that, but we would ask you to think about how you would deal with this and other problems.

Mr. TALENT. I will, and I would ask you to think about whether or not you are being open enough to a provision that has the potential not just to raise billions and billions of extra dollars for people providing direct services on the ground to the poor, as Ms. Parker mentioned, but also to begin encouraging more than I think we do today, among all Americans, to think of this problem as their problem, to think of these people as their neighbors, even if they don't live in their neighborhood.

I can see, for example, as the end of the year approached, priests and parishes all around the country standing up and saying, "Now, look, there is this $200 that you can give Uncle Sam that is going to pick up most of it, and you need to consider doing this." I understand your concerns, and maybe we can talk about them. I was a little surprised to hear of the Catholic Charities coming here to testify against a charitable tax credit for the poor because, whatever we think about the efficacy of government, this is something that I thought we could agree on.

I have one other question for Ms. Parker. I missed your testimony. I wanted to be here. I went over to talk to the kids on the Capitol steps.

Let me just bring something up. I don't know if it came up, but I want to bring it up. I want to hear your comment on it.

One of the arguments against the scholarship provision in the bill that I have heard people give is that it would allow government money to go to sectarian schools, religious schools. Now, it does

that by going through parents. I think, as I read the Supreme Court decisions, there is absolutely nothing wrong with, in effect, giving people a choice about what to do with some money or some benefit if they decide to choose their religious—I mean, if there is, then a senior citizen who puts part of the Social Security check in the collection plate has just violated the First amendment, and I don't think that is a problem.

Assuming it is a constitutionally appropriate way, I think that part of the bill would have the effect of tending to draw religious schools and, therefore, put faith back on the center stage of these communities. A lot of people have said that to me as if that is a vice of the bill. I look on it as a virtue because everything that we know about these problems indicate that the more we get people involved in a faith community, the less crime there is, the less drug use there is, the lower the dropout rates.

Would you comment on that? I mean, I think of it as a strength of the bill.

Ms. PARKER. I think so, too, and I really appreciate your putting it there.

I know too many people, too many poor people whose children cannot go to the very schools that their churches have created because they can't afford them. This particular part of the provision would allow those same tax-paying parents to channel their dollars into their school, or another one that is faith-based, perhaps.

I went to college on a Pell grant. I could have gone to whatever school I wanted to. It didn't matter whether it was religious or not, and yet, when it comes to the younger age, it seems that we have a problem with that.

When I lived on welfare, I did use parts of my income to invest in church-related activities, and there was no problem with that, but when it comes to allowing parents to choose a school that will work best for them, too many people are having to work two and three jobs just to keep their kids tucked away.

I don't have a problem with the public schools, per se. In fact, my teenager that I did mention in my testimony, my senior daughter, is in a public high school. It was in those tender years when I was single-parenting her that I needed the assistance of a faith-based school because I did not have a husband, and I needed that minister to be able to put things in her life.

I am shocked that the Congressional Black Caucus is not in 100-percent support of this bill. I am shocked that they are not holding a press conference here today in regards to this bill because in so many areas it really empowers urban America, and I think that that is something they have said continuously that they want to do.

Now we have an opportunity to do it, and I just hope this legislation passes.

Chairman CUNNINGHAM. Ms. Parker, I hope your children understand what you have done for them and appreciate it.

Mr. Blumenauer, you are recognized. Do you have any questions?

Mr. BLUMENAUER. Pass.

Chairman CUNNINGHAM. Pass?

Dr. Weldon.

Mr. WELDON. Ms. Daly, you devoted a considerable amount of your time to criticizing our welfare reform bill, and I think you

made it quite clear that you would rather not give the tax credit and keep the money in Washington and spend more money on welfare. Is that correct?

Ms. DALY. No. I don't want us to keep the money in Washington. I want to not cut the benefits that are already being cut $60 billion in your welfare bill.

Mr. WELDON. Can I interrupt you?

Ms. DALY. I don't want to see any more cuts in those programs.

Mr. WELDON. OK. Now, that $60 billion, you throw out.

As I understand it, in our welfare bill, welfare increases each year. Is that $60 billion the decrease in the size of the increase you are talking about? Where do you get that?

Ms. DALY. No, I don't think it is, in fact. In some things, it is, in food stamps, for example, but for many people, it is not just the amount that they get won't increase. They will get less.

For example, immigrants will no longer be eligible for those programs.

Mr. WELDON. I don't think they should be.

Ms. DALY. People who have been on welfare more than 2 years won't get any more.

Mr. WELDON. I don't think they should be.

Ms. DALY. Well, that is right, but somebody is going to have to make sure that they get food, clothing, have a place to live, and medicine. Many of these people are over 60 years old. They are over 65. They are sick. They cannot work. Somebody has to make sure that they are taken care of, and that will fall on the churches, charities, and the local governments.

Mr. WELDON. Some of the people who live in my district are over 60 years old and work and they are paying taxes, and they don't think it is right that we should be giving their tax dollars to immigrants.

As I understand it, when an immigrant arrives, the sponsor who is sponsoring them to come to the country signs a document stating they will make sure they have a place to live and they get food to eat. It is one thing for a charity to decide that they want to reach out to people, but to be taking tax money, tax money is not a choice. You don't choose to pay taxes or not. You are taking it from the pockets of working families, and to take that money and to spend it on immigrants—my ancestors were immigrants, and they came to this country in a time where they had to get a job and they had to go out and provide. The concept that the Federal Government is providing is, I think, repugnant to a lot of Americans, basically.

I just want to make one other point. You had some really serious concerns about the 5-year limit, and maybe Star Parker can comment on this.

I have seen welfare work well. I had a patient. She and her husband went through a bankruptcy, and they went on welfare. They were on welfare 2 years, and they got back on their feet. They were able to get off of welfare and do well. I have to say that is kind of a good side of welfare where somebody is at a point in their life where they don't have the income; that the welfare system works well for them.

Then, on the other hand, I worked in inner-city hospitals and inner-city health clinics, and it sounds like I have to go to the floor, but I distinctly remember an incident when I was in my OB/GYN rotation, working at the Erie County Medical Center where I had a 15-year-old girl come in and she was pregnant, first baby. I remember I was devastated. I said to her, "Oh, gosh, how could this happen? You must be so upset. It is going to be hard for you to finish high school. It is going to be hard for you to ever go to college," and I will never forget the words that came out of her mouth. It totally shocked me. It floored me. She told me she deliberately got pregnant. She wanted to get out from her mother's thumb. She wanted her own place in the project. She wanted her own welfare check. I thought that was horrible.

As a matter of fact, I concluded at that point that in many ways our welfare system, though it does help people like the person I just described, it destroys people. There is an evil side to it. To place a time limit on it of 5 years, I personally do not think is an unreasonable thing to do.

Ms. DALY. May I respond, Mr. Weldon?

Mr. WELDON. Sure.

Ms. DALY. I think Catholic Charities agencies and parishes probably take care of more pregnant teenagers in this country than anybody else, and we were the first national organization in this country, long before the 104th Congress, to call for no more welfare checks to girls under 18 living on their own.

Mr. WELDON. Good.

Ms. DALY. We agree with that, but we think the government has the responsibility to make sure that whoever is taking care of that teenager and her child has some resources to do it.

So we support cutting off cash checks to teenagers. We would like to see more investment in second-chance homes and other services, so that 15-year-old who may not get along with her mother, but she may have been the victim of incest or abuse or some other problem, she may need another place to live. We have long, long waiting lists for that.

Mr. WELDON. You and I agree. I think we just disagree a little bit on how it is done.

I like the tax credit. I would like to get this city out of the loop completely.

Chairman CUNNINGHAM. The gentleman's time has expired.

Mr. Blumenauer, if you would yield just for 1 second, the Chairman has to leave. He wants to make a brief statement, and then I will yield to the gentleman.

Chairman SHAW. I would like to just go back and look at a common thread that has gone through this hearing, which I think is very impressive.

We heard J.C. Watts at the beginning of this hearing talk about work, family, faith, and community. That is what brings us together, and that is the important thing.

I think we are somewhere in between. We sometimes disagree in the statement that was made that says people, not government, are our biggest resources. I think on the whole we agree on that statement, but we may disagree in degrees.

I think when Star Parker comes in here and tells us that some fellow is taxed out of business for selling Raggedy Anns on the corner and the drug dealer is still going, something is desperately, desperately wrong, and I think that is the type of thing that we need to address.

Reverend Jackson made the statement which I think is quite profound, which I am going to try to remember. He says where vision is lost, the people perish. I know that others have made that statement, but it is so real, and that is where we have lost our way in this whole welfare debate.

Ms. Daly and I have talked privately about issues that we disagree on, but we do come together on defining the basic problem and trying to work toward the solution. I think the important work is going to be in the years ahead.

I am confident now that welfare is going to pass. I have had calls from the White House indicating things that they were concerned about, which makes me even more confident that the President will sign the welfare bill.

This means that we are going to have to be patient with each other. We are going to have to work together. We are going to have to find the solutions to the problems that Ms. Parker talks about, and this is going to be tremendously important for us in the future, whether or not we are talking about the bill that is the subject of today's hearing, which is part of the solution in pieces. We have got to put together the pieces that we can agree upon because we do desperately need the vision to work ahead and to get people out of poverty, and certainly, education is one of the big pieces in getting people out of poverty. A good education is the best antipoverty system that you can possibly have, and we have to make it available.

There are many that we have lost in this generation, and we will never be able to get them back, but we must now start on the next generation. I hope that we can discuss the things that bring us together because we do recognize the problems. We do recognize that inaction of the past has created a lot of the problems we have today, and we must not be afraid of the future. We must not be afraid of change, particularly when we have a system that is as bad as the one we are seeking to change and, indeed, will change.

Thank you, Mr. Chairman.

Chairman CUNNINGHAM. Thank you, Mr. Chairman.

Mr. Blumenauer is recognized.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

I have been concerned with the turn that the discussion has taken in the course of the morning. Although I only recently joined you here in Congress, it has been my pleasure to have worked in local government for the last 18 years.

The worst vote I think I ever cast as an elected official was a vote that I really thought sounded good at the time as a State legislator, almost a quarter of a century ago, the deinstitutionalization of the mentally ill. Great on paper, great philosophy, but what I found, sadly, in my State and in State after State across the country, when the recession hit, the crunch time came, we forgot the commitment to make these community-based programs work.

So we in my State see them in a lot of other Members' districts, crazy people walking the streets with no help for their medication,

for their housing, and we have a problem that has erupted in the communities in terms of serious—in some cases, it involves problems with the law enforcement system, and it has made cities less safe, and it is a tremendous, I think, human tragedy.

I am concerned we have a lot of good intentions that have been expressed as we have been dealing with this issue. I think if we were able to somehow get past the election and have people of good faith roll up their sleeves, I think we could actually put forward a bipartisan solution on a number of these things to make significant improvements.

I wanted to just refer briefly to Ms. Daly because I was struck with her injecting a note of realism in terms of people who are on the ground now providing these services, and I am sorry my friend from Florida is not here; for example, him being dismissive of the concerns about some of the immigrant population. I was going to ask a question in terms of talking about some of the immigrants that Catholic Charities deal with; for example, the refugee population—of people who are political refugees who come here—elderly, sick, damaged by war, who have expected a promise from this country and what that might pose in some of the services that you are monitoring and providing around the country if this country now reneges on commitments to refugee populations, where you are already involved with people from the former Indochina.

Would you give a little dimension at least for the record so that that is part of this?

Ms. DALY. I would be happy to because this has been one of our major issues in welfare reform, both for the Catholic Bishops Conference and for Catholic Charities USA.

We do resettle refugees and asylees, and we have for many, many years. None of those people have sponsors. So, when they come to this country, there is not someone to sign to say they will take care of them.

Now, under the bill that is probably coming out of conference today, those people would be eligible only for 5 years. So people who have already been here for longer than 5 years or about to run out of their 5 years would no longer be eligible unless they somehow became citizens or worked in the United States for 10 full years.

Now, that is not going to be possible for somebody who is 60 or 65 years of age. Many of those people, it is very hard for them to naturalize because when you come to this country at an advanced age, it may be harder to learn the language. They may not have been literate in their own countries, and many people, though, have worked very hard, even though they didn't speak English very well, even though they had no education. They have worked hard cleaning the bathrooms in the hotels and restaurants where we go.

They scrub floors at night in the office buildings. They take care of our children and grandchildren while we are at work, and yet, those people very often are going to find themselves not able to work anymore and not eligible for Medicaid or food stamps or SSI or the things that people need to stay alive, and their families can't take care of them. Their families are back in China or Russia or Hong Kong or Vietnam. So we are very concerned about that group, but other people who didn't come as refugees and have worked very

hard, but maybe not 10 years, and some tragedy has befallen them, they have become ill, they can't work, they are injured, they are going to be told we are not going to help you. You have worked in this country for 6, 7, 8 years. Too bad, we are going to turn our backs on you.

These people are concentrated in certain States, like California, Texas, Florida, Colorado, and in certain communities, the communities who are least able to pick up that slack, either in the religious community or the other nonprofits.

The Federal Government is one way that the whole country shares a burden evenly, and when the Federal Government pulls back, those communities and those people are going to be at greater risk and not able to pick up the slack.

If I could, while I am talking to you, Mr. Blumenauer, one of our major concerns—Mr. Talent said what are we worried about with this bill, why aren't we for a tax credit. Well, tax credits can be great, but how do you figure out the problem of "buying the base"? The Ways and Means Committee, whenever you talk about tax credits, whether they are investment tax credits or whatever, you talk about buying the base, and the biggest amount of money that is spent on the new tax credit is spent paying for giving that would happen, anyway.

Mr. BLUMENAUER. Right.

Ms. DALY. That is our big concern.

If the Ways and Means Committee can figure out how just to subsidize increased giving to charities, I think we wouldn't have so many concerns.

Mr. BLUMENAUER. Thank you very much. I appreciate your helping us inject a note of on-the-ground realism in these discussions. It is very useful.

Ms. DALY. Thank you.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

Chairman CUNNINGHAM. I thank the gentleman, and I find a lot of areas that we agree on.

Mr. BLUMENAUER. I hope so.

Chairman CUNNINGHAM. I think so, and I think we can sit down after the elections and maybe beat some of this stuff out.

Serving as the Subcommittee Chairman on education as far as refugees, I support strongly, for immigrants that are going to become U.S. citizens, I think it is a benefit for us as a country to educate those people and make student loans available to them. That means they have a better opportunity, and probably you won't have to support their children on welfare with the Catholic Charities.

My wife and children are Catholic. So I understand that aspect as well, but I think there are different categories. The asylum, the refugees, and those that bring in through sponsorship, we feel that someone like, say, Imelda Marcos that brings in and sponsors somebody, maybe they should be means tested, and we are trying to get the funds down to the people that really need it, just like in welfare.

Ms. DALY. You can count Imelda Marcos' income. You can deem that without making people ineligible.

Chairman CUNNINGHAM. We could just sell her shoes and make enough money.

I want to thank the panel. These things are all very educational, and we appreciate your coming and your time. Like I say, sometimes we disagree on how to get there, but at least we are trying to get to the same target.

Thank you.

I will bring up the third of four panels, Hon. Glenn O. Lewis, State Representative from Austin, Texas; Hon. Fannie Lewis, a member of the city council of Cleveland, Ohio—and though they have the same last name, I assume that they are not related since they live in Ohio and Texas—Alieze Stallworth, legislative chair, District of Columbia PTA, Washington, DC; and Asha Muldro, senior, Yale University, New Haven, Connecticut.

If the gentlemen would take your positions. We thank you for your patience of going through two other panels.

You will be recognized for approximately 5 minutes, and I will try and be a little bit lenient with some of the questions, but in reference to the next panel that follows, there will be a limit to the Chair's prerogative.

I will proceed in order. You may submit your entire testimony for the record, or if you have further questions of the panel or would like to submit those, you will be able to do that.

I will start off with Hon. Lewis, State Representative from Austin, Texas.

I want to tell you something first. I have a niece, 4 years old, and I asked her, "When are you going to come and live with Uncle Duke," and she says, "Uncle Duke come to Texas, I ain't never leaving Texas." So you engrain it in them early, but with that, Hon. Glenn Lewis is recognized.

STATEMENT OF HON. GLENN O. LEWIS, STATE REPRESENTATIVE, FORT WORTH, TEXAS

Mr. LEWIS. Thank you, Mr. Chairman. I appreciate the opportunity of being here.

The first thing I want to do is correct one small bit of information. I serve in Austin, Texas, but I represent Forth Worth, Texas. My constituents would never forgive me if I allowed you to say that. It is like saying all of you all are Congressmen from Washington, DC.

Chairman CUNNINGHAM. Thank you.

Mr. LEWIS. I do serve in the Texas legislature from Forth Worth, Texas. I represent an inner-city district that is about 60-percent African-American.

At the last session, we dealt with the school choice issue, which is the issue that I have come here to address. We had a bill in the Texas legislature that passed our Senate and came within 13 bills of passing in the House.

After much study and much agonizing over the issue, I was one of those votes in favor of that bill. I came to an inescapable conclusion. Number one, people who have resources in this country already have choice with regard to their children's education. They can send their children anywhere they want to send them to be educated. It is only the people who have limited resources, like many of those that I represent who have no choice. They are captives, if you will, of the public school system.

Ever since about 1954, people in communities like mine have found the public school systems to be increasingly less responsive to their concerns. Increasingly, they are unable to exercise a great deal of control over them.

The largest complaint I have from my constituents about the school system today is their children being channeled out are expelled from school for seemingly minor infractions.

The statistics in the Fort Worth independent school district bear that out that African-American and Hispanic children are expelled at a rate twice that of their white counterparts. I don't know the reason for that, and even though we have endeavored to learn why, we have not been able to learn the reason for it, but what I do know is that a child-centered funding plan will allow the parents much more control over the system in which their children are educated. It would give the parents the choice, and if, in fact, every one of those kids went out the door, their share of money goes with them. I can only guess that they would not be so quick to expel them from the schools in that situation.

I have heard the arguments before in the panels before me, and believe me, my colleagues and I in the Texas legislature have debated this issue as tirelessly as you all have debated it, I guarantee you, but I have just come to the conclusion we have to at some point regain control over the systems that educate our children, and yes, it would require parents to be much more responsive. Parents would then become the consumers of education for their children, and I believe parents are willing to assume that responsibility, and I believe they can, if given the choice to do so.

There are people within our community. When I was listening to the earlier panel, I heard an assumption being made that was made during the Texas legislature that somehow this is going to allow kids or parents to choose for their kids to escape the communities, to go elsewhere to go to school. I don't think that that is necessarily true.

First of all, I think the competition will improve the public school system, and second of all, I think it would allow creative people in our community who have found ways to do what we have been paying the public school system to do, but they have not been able to do it, to allow them to access dollars to do so.

I thank you for allowing me to address you. I am concerned about this issue not only as a legislator, but as a father of a first-grader and a second-grader.

Thank you.

[Mr. Lewis' statement was not available at the time of printing.]

Chairman CUNNINGHAM. Thank you, Mr. Lewis.

Hon. Fannie Lewis, member of city council from Cleveland, Ohio.

Fannie, if I may?

STATEMENT OF HON. FANNIE LEWIS, MEMBER, CITY COUNCIL, CLEVELAND, OHIO; ACCOMPANIED BY TYSON MITCHELL, HEAD OF EDUCATION COMMITTEE OF CITY COUNCIL

Ms. LEWIS. Thank you, Mr. Chairman. Giving honor to God who is the head of my life, it keeps me doing all I have to do every day.

To you and representatives and especially to my Congressman Louis Stokes, it is just nice to be here to be able to tell you about some of those things that we are doing in Cleveland.

Somebody mentioned whether Representative Lewis, he and I, were related. Well, God didn't make but two people. So all of us are related in one way or another, and that is what we have to deal with is people.

When we think in terms of neighborhoods where people are entrapped, we tend to talk about poor people, but there are rich people who are poor. It just depends on what they are poor in.

We are talking about people who are entrapped in the neighborhood where social services, jobs, all kinds of services have been pulled, and the people are left to die because they do not have the ability to do it themselves. This is like a neighborhood that I represent, which is in Huss, in Cleveland, one of the riot-torn cities that people said could not be rebuilt. Well, we are rebuilding that neighborhood. We are rebuilding it with government dollars, but the government dollars that are going into that neighborhood are going to the people. They are not going to somebody to be a director or to buy a building or to do consulting services. They are going directly to the needs of the people.

Having lived in that neighborhood from 1951 to 1971, I have seen $90 million spent on one corner, and when I started running for council, the corner was clean. There was nothing there.

So we need to quit wasting government dollars if we are talking about helping people who are trapped in neighborhoods where the lack of education and everything else is concerned. That is why I am interested in the choice.

Coming from the welfare roles, I could take my welfare check and spend it wherever I wanted to spend it, but somebody seems to think it is wrong to be able to get a voucher to go and buy education where you want to buy it.

We have been saved, slept, bathed, all kinds of food giveaways in the inner city, and let me tell you, poor people in a neighborhood like mine are no more than a place where people can come and count heads and get government dollars to take and give away in contracts and what have you. That needs to stop.

In my neighborhood, we looked at a goal. We set some perspectives, and we stay focused on them. Education is one of those goals because if people are uneducated, then they can never do things for themselves, and that is why we are interested in the choice situation. It is because it allows parents or whoever is responsible for a child to go and buy education where they feel they want it.

In Cleveland, we have a public school system that since 1951 has been losing 51 percent of this end product since 1952. The Board of Education has a $6-million budget, 66,000 youngsters, which comes out to something around $9,000 a year.

You can send your child to one of the best schools in Cleveland for $9,000 a year, such as St. Ignatius. You can send her out to Hathaway Brown or you can send him to some other school for $9,000 a year. We are talking about less than that.

We are talking about being able to educate youngsters in the kind of education that has been designed for them, and when you have a school system that has a teachers union whose representa-

tive is on one end fighting the issue and the husband who is a part of the teachers union is fighting on the other end and they are both exchanging money and what have you, it makes it very difficult to try to get through.

Let me say this to you. Legislators are the only ones who can make a difference in this because we are the ones who legislate the laws. We are the ones who make the difference, and we are the ones who are supposed to see that this money is going where it is supposed to go.

I heard somebody say that poor people don't vote. Well, I can move 320 people at a drop of a hat, and if I really work at it, I can get 1,000 to 2,000 people together because of them getting benefits. When we can begin to show people the benefit, that is what we need to do in education.

I have a grade school, Wade Park Grade School. I had, about 4 months ago, a young kid to die in that school because of the fact that it is so overcrowded. The teacher was so perplexed with what to do with that child because the brother said he was having to lay his head on the desk and the kid died. Discipline and safety is the key problem.

We talk about the money for vouchers or for choice going to parochial schools or what have you. I really don't care where it goes as long as it is educating the child.

We talk about the problem of church and State. Well, in Cleveland, the Catholic schools get almost 500-and-some dollars for every child that goes into the Cleveland public school, and so does the voucher. So the point is to educate children, and when you can educate children, then you are going to be able to change this country. You are going to be able to change neighborhoods, and you are going to be able to change communities.

I know according to the red lights that I have at home, that means shut up, but let me say this to you. I can't say to you in 5 minutes what you ought to do, but let me tell you this. You need to come out to my neighborhood, and let me show you what we have done. I am the only legislator in Cleveland that stood up and fought for the voucher, and now we have a lawsuit that is pending, the lawsuit down in Columbus as far as choice is concerned. It only takes one person to make a difference, and the people in the neighborhood.

I would invite you out because we have put together a K-through-12 school, and the house is burning and it is killing our children. So what do we do? Do we let them all die, or do we come up with some means or method by which to save some? That is what we are trying to be, is an example of what can be done when the money goes where it needs to go.

I have read your bill. Unfortunately, I came here, stubbed my toe, and I am wearing a different shoe today. Satan is really busy trying to keep you from saying what you need to say, but let me dare you to come out to my neighborhood and take a look at what we are doing in my neighborhood and what people can do when they have a mind to make a change in a system.

Poor people do vote, but one of the reasons why they don't vote as much as they do is because you can't show them the benefits. Everybody wants some benefits, and I don't care who gets the bene-

fits as long as we get some of it. Anything that comes into my neighborhood, we have to get a piece of it or it doesn't come.

Chairman CUNNINGHAM. I am going to have to ask the gentlelady that you can continue your conversation when we have questions, and I am very hesitant to cut off a relative of mine right in the middle of a sentence.

Ms. LEWIS. I am glad you admit that.

Chairman CUNNINGHAM. I thank the gentlelady.

Ms. LEWIS. But if I can just say this, this young man with me, who is Tyson Mitchell, who is a product of the Cleveland public schools, who is now a lawyer, who heads up our education committee, if you would be so kind before we finish to let him say a few words to you, I would appreciate it.

[Ms. Lewis' statement was not available at the time of printing.]

Chairman CUNNINGHAM. Thank you.

Alieze Stallworth, legislative chair, District of Columbia PTA, Washington, DC, the gentlelady is recognized.

STATEMENT OF ALIEZE STALLWORTH, LEGISLATIVE CHAIR, DISTRICT OF COLUMBIA CONGRESS OF PARENTS & TEACHERS, WASHINGTON, DC

Ms. STALLWORTH. Good afternoon. As you have heard, my name is Alieze Stallworth. I am the parent of three students currently attending public schools in the District of Columbia, and yes, I am a very active member of the PTA. But first and foremost, I am a mother.

As a mother, I oppose vouchers. I have heard a lot of talk here today from both panelists and the legislators on saving children. I think our job is to save all children.

I have heard a lot of people here today say how horrible things are for poor children, as if poor children are the only children suffering in our school systems. They are not. This bill doesn't benefit all of our children. We are talking about saving some and sacrificing most, and that is not acceptable to me as a mother.

I think the legislator's job is to go out, and if you want to do something with these renewal communities, and to look at model schools, public schools that are working. If they want to look at private schools that are doing a tremendous job, look at those and create model neighborhood public schools in their own communities.

It is not about funneling money and creating what I feel is a welfare system for private and parochial schools. When we talk about welfare reform, I agree with your press release that came out. Yes, this does go hand in hand with welfare reform.

While you are taking food and clothes from children, you are giving money to private and parochial schools, creating their welfare system. So, yes, it goes hand in hand. You are just taking from one and giving to the other, but as far as this program is concerned, I want you to look at what happens in terms of money.

A lot of people have stated how much public schools spend and how much is spent on the voucher program in Milwaukee. You said it is $3,000 of voucher money. How much of the title I funds do these schools get? What is the total amount of financial package connected to each one of these children? Because all of these programs focus on our educationally disadvantaged children, who have

Federal funds attached to all of them. So, above and beyond that $3,000, the voucher schools are getting more.

One of the earlier legislators said this doesn't take money from public schools. I beg to differ with you. It does exactly that because when you take a child, you take their funds. As Mr. Gingrich has said, if you are talking about $9,400 spent per child in the District of Columbia public schools, and he also said they may voucher 3,000 students, we are talking about $28 million. Tell me a public school that is going to do better and improve the conditions of our buildings if you are going to take away $28 million not 1 year, but every year. The schools are going to miss that money. Our children are going to suffer—the majority of the children.

I have sat here as a parent and heard that only the poor children can't escape. Those that are in the middle and upper incomes, they can get out. That is not true.

In this bill, you create vouchers for the lower income. Then you are going to get the argument from parents on the upper income level saying, We want a tuition tax credit. Then the upper income level is going to get a tuition tax credit, and that big piece in the middle income is going to be in public schools with less dollars.

So, if our problem is that we lack safety—we lack good, sound, physical structures for our schools—then let us fix those problems.

We know that from study after study that the most important piece of a child's education has nothing necessarily to do with the physical condition of the building, but with how involved their parents are and what they perceive the public opinion to be of the quality of education they are receiving.

As our children watch legislators constantly proposing vouchers and saying let us send some children to private schools, you have to worry about student morale. We have heard a lot about teacher morale. So, I want to talk about children and their morale.

Children see legislators day after day, discounting the quality of education that they are getting, and cutting and cutting at the school budget. They see every day that they need those funds. When my daughter sits in her english class and the roof is leaking, she knows that her school system, whose budget for capital improvements has been cut to the bare bones, needs more money to repair that system. But what they see and what they feel, as we are asking them to behave and they see all of these things, is a system telling them that their education is not important. That it is not important enough for the legislators to insist that the neighborhood public school is improved and empowering the parents to help do so.

Vouchers are going to seem to be really enticing to a lot of parents. But this program does not open the door to parent choice because, as it states in this bill, children are not going to be guaranteed admissibility to these private schools simply because they apply. They have to qualify. They have to fit the criteria of the private school. It also goes on to say that any private school or religious school that is located within that renewal district or a reasonable transportation distance of these communities must be allowed to participate if they want to.

So I ask you, whose choice is it, the parents' choice or the choice for these private and parochial institutions? In closing, I want peo-

ple to think about one thing. There was a time when schools in the United States were private, and what did they practice? Exclusion. And we will be going back to that. We will be going back to schools choosing who and who not to take. We working toward homogeneous school environments, with warehouses of children with disabilities all lumped together.

Our public schools are moving toward inclusion. They need your support. They need those renewal dollars to come into their communities, and they need you to work with them and have the Department of Education come in and help set up model schools. Plus, I see nothing in this bill that addresses what happens to all of the new schools that are being created, like the ones in Cleveland. Parents aren't just putting down their one choice, but they have to put down six choices because they may not be able to get the first five. Yes, a lot of them are sending their children to new schools. Are there rules and regulations here governing new schools? None. I don't see them in H.R. 3467.

Thank you.

[The prepared statement follows:]

STATEMENT OF ALIEZE STALLWORTH
LEGISLATIVE CHAIR
DISTRICT OF COLUMBIA CONGRESS OF PARENTS & TEACHERS

Good Morning. I am Alieze Stallworth, a parent of three children in the District of Columbia public schools and an active member of the D.C. Congress of Parents and Teachers.

During consideration of last year's federal budget, I, and other public school proponents, spent seven months opposing an education voucher proposal that some legislators wanted amended on to the city's federal appropriation package. Like many of those who oppose vouchers, the D.C. PTA believes that tax dollars should finance public schools that alone are accountable to the tax payer and accessible to every student.

Today I return to Capitol Hill to oppose H.R. 3467, the Saving Our Children, the American Community Renewal Act. I appreciate the opportunity to explain why this bill will not save our children, nor improve our neighborhood public schools. In truth, H.R. 3467 fails to address the real needs of public school students and neglects to provide incentives for strengthening neighborhood public schools. Instead, the bill forces communities in need of federal assistance to develop and implement education voucher plans benefiting private and religious schools, and to privatize public school services.

As you know, no state has authorized an education voucher proposal. In those states where vouchers faced public referendum or a vote in the state legislature, voucher plans failed. In all of the United States, only two cities have adopted voucher plans. Not only

do these proposals lack full community support, both plans are being litigated in the courts. Yet, vouchers for non-public schools continue to be the center piece of nearly every recent federal education reform proposal. Why is the solution to helping public school students to put money into non-public schools?

Through out the country, as in the District, there are many good public schools doing an excellent job preparing youngsters for higher education and employment. Despite assertions to the contrary, the numerous sources of data show that nationwide educational achievement has improved, particularly among minority students. In addition, high school students are taking more challenging courses, more students are graduating, and a high number of students are enrolling in college.

In the city, there are success stories as well. There are many parents who believe their children are getting a high quality education at the city's public elementary and secondary schools. In the District, numerous students are graduating with honors. For instance, this year, a young man in my daughter's school was awarded a scholarship to Harvard. Recently, D.C. public school students won awards in the international contest of Odyssey of the Mind, and a youngster from J.O. Wilson public school took first place in the National French Competition.

The District also provides non-compulsory, full day early childhood education programs for children in pre-K and kindergarten. This early childhood program is viewed by many to be a model program for the rest of the country. Actually, as news reports have indicated

there are many parents from neighboring states who are illegally sending their children to the city's public schools because they believe the programs are high quality.

This is not to ignore or minimize the problems that do exist. However, the solution is not to abandon neighborhood public schools by diverting tax dollars into vouchers for non-public schools. If the issue is student safety, then make the schools and the neighboring community safe. If the dilapidated buildings are the problem, then improve the facilities. If the schools lack computers and books, supply them. If teachers need additional training or families need support services then schools should provide them. Use the public schools where there are measurable successes as models for education reform initiatives in poor performing schools. Take the billions of dollars that would finance a private school voucher plan and use these resources to bring the deficient schools up to the same level as the good schools. Our nation's goal should be to ensure that every neighborhood public school provides youngsters with a high quality education.

The remedies will not always be simple, but success is achievable. Public opinion polls show that most Americans support public schooling and are willing to help bring about successes in their neighborhood public schools. Nationwide there is a growing resurgence of parent and community activism focused on enhancing the opportunities public schools provide students. Parents and concerned citizens are uniting to make good schools better and put the not so good schools on par with others. They know that the commitment is a long-term investment, not a short-term venture.

Also, an increasing number of parents and other public school advocates are mobilizing to counter the unfair and unbalanced distortions regarding the public school's successes. Armed with dozens of recent books, reports, and studies, these advocates are showing that many public schools are doing a good job educating children. Most Americans want government to maintain its commitment to public education. Just one month ago, some 3,000 National PTA members, representing every state and the District, rallied on Capitol Hill. Their message to Congress members: public funds for public education.

Public school proponents know that money is not the only answer. However, a critical factor of how well a school does is tied to the resources available. How well students do is often reflective of the value that others place on school success. Most frequently, students gain that perspective from parents or other important adults in their lives. We as a society send messages to young people as well. Therefore, I worry when elected officials and community leaders dismiss troubled public schools as so invaluable that the only alternative is to help a few students escape to non-public institutions. For the thousands of students who remain in those schools, the unspoken message is we do not value them or their education. Why should young people compete for academic success, when adults no longer strive to make the school, where these students spend the majority of their day, a priority?

There are many issues related to education reform —achievement levels, curriculum, safety, parent involvement, and others. Each is important. However, H.R. 3467 does

nothing to address the changes needed in these areas. H.R. 3467 is about public money for non-public school systems.

The voucher debate is not about improving or reforming public schools. The voucher issue is a matter of funding priorities. The fundamental question in the voucher debate is whether Congress wants to provide high quality public schools for children. Or will public funds be diverted to private and religious schools?

Vouchers are not about enhancing competition among public and non-public schools. Schools that can not adequately service students with their current budgets will not be able to compete any better with fewer public resources. Not only will schools lose the money that goes with the student, but schools will lose program funds awarded on a formula basis. At the same time, the non-public schools would not only get the money from the vouchers, they would get the other education dollars that follow the child – including funds targeted for educationally disadvantaged students, like Title I of the Improving America's Education Act.

This voucher program is not about parent choice, but about the non-public school's choice. Private schools are selective and have admissions criteria that students must meet. H.R. 3467 illuminates this fact by including language that states "students receiving vouchers are subject to the admission criteria of the determined school and nothing in this title shall be construed to guarantee the right of an eligible child to attend any voucher school." Parents only get to apply to the school, the school chooses who will be admitted.

Equally troubling is that the bill requires that any legally established non-public school, within the community or within a reasonable transportation distance, wishing to be a part of the program must be allowed to participate. Consequently, the community doesn't have the right to establish if the school is good or bad, even though the institution would get public money. The schools benefit under this plan, but there are no safeguards for the children.

The voucher mandate in H.R. 3467 will not improve neighborhood public schools. Actually, the bill further burdens communities by requiring that they develop programs to privatize school services, such as transportation and food services. Not only will neighborhood public schools not benefit from this bill, but H.R. 3467 puts more children at risk because the community will have fewer resources to educate students. Money should go to reduce class size, improve facilities, train teachers, and finance other classroom enhancing projects. Communities should not be forced to spend limited resources carrying out administrative mandates generated at the federal level.

H.R. 3467 incorporates many other objectionable provisions. For instance, the bill allows participating private schools to give preference to students previously enrolled over new students. Private schools are clearly the intended beneficiary of this plan.

In addition, tax dollars would finance voucher schools that discriminate in admitting students based on academic abilities, gender, religion, and disability. Also, schools could refuse to hire teachers based on their gender.

Another problem with H.R. 3467 is how the voucher plan will affect the education of students with disabilities. The bill requires that communities set a voucher amount based on a per pupil cost using the same cost for students with the same special needs. Yet, there are often considerable variations in the costs of educating students with disabilities. The structure of the voucher maximum may fall far short of covering the actual expenses for educating that child. Will the public schools pay the additional costs of the students getting vouchers or will the parents?

Further, H.R. 3467 limits the Secretary of Education from enforcing regulations and requirements on private or religious schools receiving vouchers. The provisions of the bill raise serious questions as to whether schools getting public funds must comply with such laws as the Individuals with Disabilities Education Act, civil rights statutes, and the Improving America's Schools Act. In short, private schools under this plan would not have to comply with the same requirements by which public schools must abide. Nor are private schools accountable to the public for the tax dollars appropriated to them.

Moreover, H.R. 3467 raises constitutional questions. The bill allows, and encourages, tax dollars to flow to religious schools. Over 85 percent of all students enrolled in private schools attend sectarian institutions. Vouchers will pay for religious instruction and

advance the sectarian mission of the schools, which violates the constitutional guarantee of church and state separation

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Finally, H.R. 3467, like any voucher proposal, raises questions about how, in a time of budget deficits and education funding cuts, Congress can subsidize private schools. How will Congress pay for this voucher package? Will legislators generate new money by imposing a tax increase on the American public or will the voucher scheme be paid for with existing federal dollars?

The problem with the voucher provisions of H.R. 3467 are numerous. I have noted just a few. The issue, however, is not about how to make a voucher plan work. The issue is public support for public schools.

Vouchers are about using tax dollars to finance private and religious education. Vouchers are about shifting our country's policy priority from supporting public education to providing funds to non-public schools. This bill has the very real potential of allowing discrimination against many students who could be denied access to federally funded private schools.

In closing, I urge you to evaluate the vouchers in the context of how the plan impacts **all children** in public schools. At first glance, vouchers appear to provide a simple solution -- move the child to a private or alternative public school. A closer look, however, reveals a complex situation that does not lead to equal educational opportunities. Instead

vouchers will likely place far more young Americans at greater risk by creating a wider gap in the distribution of school resources.

Vouchers offer assistance to a selected few. There are about 45 million public school students in the U.S. If Congress passes a private school voucher proposal how many of these children will get a voucher? More importantly, how many children will not. What happens to the vast majority of those children who remain behind in a school with fewer resources? How do we help them? H.R. 3467 does not provide the answers.

For the reasons enumerated in this testimony, I again want to restate the D.C. Congress of Parents and Teachers' opposition to H.R. 3467.

Chairman CUNNINGHAM. Thank you, Ms. Stallworth.

Asha Muldro, senior at Yale University of New Haven, Connecticut, and the gentlelady is recognized.

STATEMENT OF ASHA MULDRO, SENIOR, YALE UNIVERSITY, NEW HAVEN, CONNECTICUT

Ms. MULDRO. OK. Well, first, thank you, Mr. Chairman, for allowing me to be here today. I am going to testify on behalf of H.R. 3467, and I will focus specifically on title II regarding school scholarship vouchers.

I would like to submit my written statement for the record. However, right now I am feeling compelled to just speak from my heart.

I am here for a number of reasons. First, I represent the children of the future, and I am here to remind you that the future is quickly transforming itself to the present.

Second, I am here to represent the children we all so often forget about because of financial limitations, and mostly I am here as a living testament for the benefits that can be accrued from private and parochial schools.

You see, I am from a single-parent household. I grew up in a lower working-class section of the Bronx, and currently, I am a senior at Yale University. I am interning this summer on Wall Street at J.P. Morgan, and I am preparing to apply to law school in the fall.

It is actually a wonderful year that I am going into because I am faced with a wealth of opportunities and doors that are open to me. I am having a hard time actually deciding what to choose.

I know that I want to go in a direction where I can effect positive change for my community and be challenged, and I am excited for having such a wealth of opportunities. However, I know that there are so many people just like me who are faced with closed doors.

The fact is I am in a position of empowerment for myself, my family, my community, and America, but I don't know where I would be if I had not escaped from the public school system in my Bronx community.

You see, today there is widespread agreement that many of America's public schools, especially in underprivileged neighborhoods, are in shambles.

I was fortunate enough that my mother simply would not allow me to attend our local public schools. Rather, she did whatever she could to make sure I received a quality education. For me, that meant going to a school in Manhattan, a talented and gifted public school. It required, though, a 45-minute subway commute, or else I had to stay at my grandmother's house to use her Manhattan address, and it was hard. I was 8 years old, not at home, or else on a subway, but that was the best option that we had as opposed to going to the local school where I would be faced with violence, teachers that didn't care, and education that just simply was not sufficient for my needs.

The problem is a lot of the students that went to the talented and gifted public school didn't have the options that I had. Many of them were forced to stay in their public school system, and unfortunately, there weren't gifted junior high school options. Most of them desperately sought to switch districts in an effort to attend

some of the better public schools. Fortunately, my mother again insisted—in fact, it was more than insisting—that I apply to De Lasalle Academy.

You see, De Lasalle Academy is a private junior high school for academically talented children from lower income families with a needs-blind admissions policy.

When I was accepted, my mother was ecstatic because she knew that I was on the right track. The alumni from De Lasalle all went on to the best public, private, and parochial high schools. Some of them also went on to some of the best boarding schools on the east coast. The students genuinely loved their school, and De Lasalle pushed every student to reach her own personal degree of excellence.

While the competition was internal, the students at De Lasalle Academy strove to be their personal best. I can truthfully say I did more work at De Lasalle Academy than I have had to do even at Yale. Our development at De Lasalle was more than just academic. De Lasalle nurtured our minds, our hearts, and our spirits.

The principal of the school, Brother Brian Cartey, instilled in us a sense of values, morals, and commitment for ourselves and others at the school. Although De Lasalle is a private school and not a parochial school, it does have a religious base, and we were encouraged to keep in mind the tenets of all religions, to be good people, to give back to our communities, and to love, care, and respect one another.

We didn't necessarily say any particular prayers or so forth, but we did start every class saying, "Let us remember that we are in the Holy presence of God." For me personally, that allowed me to focus on what I had to do and remember my personal responsibilities to uphold a particular code of moral conduct. I tell you this to emphasize the value of religious-based schools and parochial schools because we are talking about America's future and a value system that often gets lost in too many of the public schools.

Continuing, the small size of the school at De Lasalle helped to instill a sense of community, and we were encouraged to perform activities of social justice.

I just want to quickly move on, to continue, to say that my foundation at De Lasalle is what helped me to be successful at the private boarding school that I attended, the George School in Newtown, Pennsylvania, in which I was able to take advantage of advanced placement courses and horseback riding for recreation. I don't know of too many public schools that offer those types of options, and I know I was given a wonderful college guidance process in which I found Yale, which turned out to be the perfect school that matched my needs.

At Yale, the majority of my grades are A or A-minuses, and I am president of multiple organizations and participate in extensive community service products.

I have had the opportunity to study in London and independently travel to France, Italy, and Egypt. I have been afforded an abundance of opportunities that many of my friends in the Bronx would not dare to even dream of.

As I sailed on a fulica in the Nile, they strolled through metal detectors in their local schools. Similarly, many of my friends from public schools went on to public high schools that didn't provide them with adequate attention to keep them on the right track or provide them with sufficient college guidance. Many of these talented and gifted students that I went to school with have since dropped out or are now selling drugs or are mothers already.

[The prepared statement follows:]

STATEMENT OF ASHA MULDRO
SENIOR, YALE UNIVERSITY

Before: Ways and Means Subcommittee on Human Resources & Economic and Educational Opportunities Subcommittee on Childhood, Youth and Families

My name is Asha Muldro. I am a living testament to the benefits that accrue from private and parochial school scholarships. I was raised in a single parent household in a lower working-class section of the Bronx in New York City. Currently, I am a senior at Yale University, interning this summer on Wall street at J.P. Morgan, and preparing to apply to Law School in the fall. I am about to embark upon my final year of college and I am faced with a world of opportunities. I am in the position to walk through any one of the multiple open doors that lay ahead in my path. Quite honestly, I do not know what to choose, I am trying to go in a direction in which I will be challenged and be able to effect positive change and give back to my community.

The fact is, I am truly in a position of empowerment for my self, my family, my community and America. I am one of those "children," America's future which is now transforming itself into the present. This is quite a scary statement, for it leads one to ask, what is America's future going to hold if our children, All of our children, are not prepared to handle it?

Today there is widespread agreement that many of America's public schools, especially in underprivileged neighborhoods, are in shambles. I was fortunate enough that my mother simply would not allow me to attend our local public school. Rather than have me go to school in a violent, unproductive environment my mother was willing to do whatever she could to ensure that I had a quality education. So instead, she enrolled me in a public school for talented and gifted students in Manhattan. Unfortunately this required that on some days I traveled forty-five minutes to the city, at eight years old, to go to school. On other days, I lived with my grandmother in her Harlem apartment allowing me to use her Manhattan address and get to school in twenty minutes. This New York City public school, one of very few of it's kind in the 80's and nearly extinct in the 90's was a wonderful experience for me. I was given challenging work in a safe, supportive environment surrounded by other intelligent and motivated students.

When we graduated in the sixth grade, most of my friends stayed in the public school system. While there were not any "gifted" junior high school options, most of them desperately sought to switch districts in an effort to attend some of the "better" public schools. While I wanted to go to public school with my friends, my mother encouraged (in fact she insisted) that I apply to De La Salle Academy.

De La Salle Academy is a private junior high school for academically talented children from lower income families with a needs blind admissions policy. When I was accepted, my mother was ecstatic because De La Salle had an incredible track record. The alumni went on to some of the best public, private and parochial high schools in the city and some of the best boarding schools on the east coast. Most importantly, the students genuinely loved their school. De La Salle Academy pushed every student to reach their own personal degree of excellence. While the competition was internal, the students at De La Salle Academy strove to be the best that they could be.

While I can truthfully say that I did more work at De La Salle than I have had to do even at Yale, our development at De La Salle was more than just academic. De La Salle nurtured our minds, hearts and spirits. The principal and founder, Brother Brian Carty, instilled a strong sense of values and community in us. While De la Salle is a private school it does have a religious foundation. They didn't teach us about any particular religion, rather we studied the theory of religion and we upheld the value system that is a tenet of all religions, to be a good person and to help and care for one another. Although there were students from different faiths, we began all of our classes with the phrase: "Let us remember that we are in the holy presence of God." Personally, this helped to constantly reinforce the moral code of conduct that was expected of me.

The quality of the teachers, the small size and the intimate atmosphere created a sense of family within the De La Salle community. We also learned the value of doing community service and our responsibility to be the "movers" and "shakers" in society. Most importantly, our achievements and social justice activity helped us develop an increased level of self-confidence and independence. With the academic and personal skills that we developed we were well equipped to face and conquer challenges.

Thanks to the foundation I received at De La Salle Academy I was able to flourish in my subsequent educational environments. I received a scholarship to a wonderful boarding school, the George School, in Newtown Pennsylvania. At George School I took advantage of a wide array of Advanced Placement courses, and horseback riding for recreation. Our college guidance office was superb and I was accepted to a number of Ivy League colleges. At Yale, the majority of my grades are A or A-. I am president and founder of multiple organizations and participate in extensive community service projects. I have studied in London and independently traveled to France, Italy, and Egypt. I have been afforded an abundance of opportunities that many of my friends in the Bronx would not dare to even dream of.

In comparison, many of my public school friends went to public high schools that did not provide them with adequate attention to keep them on the right track or provide them with sufficient college guidance. Some of the "talented and gifted" students that I went to elementary school with have since dropped out and are now selling drugs, others are already mothers. One of my best friends from elementary school, whose intelligence I admired, was not advised about college. Rather, she went to a six week business training program to become a secretary. Not that anything is wrong with being a secretary per se, she is just an example of a lot of the potential that gets lost in many public school systems. While I also have friends that have gone through the system and done quite well, it is sad that they are the exceptions rather than the rule.

Having reaped a myriad of benefits from my private school experience and seeing so much potential lost in the public school system, I am in strong favor of the American Community Renewal Act of 1996. As one of the many things that it will provide is the opportunity for underprivileged children to have a choice about their education and their future.

I hope that this bill will also provide the necessary incentive to improve some of the public schools. Nonetheless, we cannot stop here. There must continue to be major efforts to improve the conditions of the public school system. Similarly, there must also be measures put in place to help the children that do not live in one of the hundred 'renewal communities' or who may not be poor enough to qualify for the program yet still do not have enough money to pay for tuition. No matter what, we can never forget about the importance of "saving our children" ALL of America's children, our future.

Chairman CUNNINGHAM. The gentlelady's time has expired.

Ms. MULDRO. OK.

Chairman CUNNINGHAM. You can submit it for the record in the interest of fairness to the rest of the panel.

I would recognize Mr. Talent.

Mr. TALENT. I thank the Chairman.

Ms. Lewis, I would love for you to have a little extra time to add to your comments before, and you said you had your attorney. You wanted him to have the opportunity to make a comment. If you would do that, and if you want to respond to what I hear to be the theme constantly with those who oppose the scholarship provisions, it is a little hard for me to understand because the argument seems to be that we have this establishment that everybody knows is failing, and so if we let some people get out, it is liable to fail more.

I am trying to see that argument. Maybe if in the bill we provided that the States could not take any money away from these schools, even if students left, so that they would have as much money as they would have now, but fewer students—

Mr. FATTAH. Would the gentleman yield?

Mr. TALENT. Yes. We have been fairly loose on the time, and I want to give them a chance, but I will yield briefly, yes. I am really trying to understand.

Mr. FATTAH. The gentleman who represents Fort Worth, Texas, not Austin, stated that the legislature in Texas considered this issue, and like my own, Pennsylvania decided to reject the notion of full choice.

This proposal would essentially have the Federal Government step in and provide choice as an option. In that, you are suggesting we would further dictate to the State government that they would have to continue to supply aid to schools on a basis other than a perfect pool basis. Is that the compromise?

Mr. TALENT. No. I am saying if that would help create a consensus on the part of the opponents who are afraid that the schools would lose money, I would be willing or maybe we could say if you lose a child you lose half the funding. So maybe you start a classroom with 30 kids. Five of them leave. You get to keep the moneys of two and one-half of them were still there. So you have more money and fewer kids, and I don't see why that is going to lead to failure.

I have been in public life now for about 12 years, in the legislature for 8 years. I am going to let you comment. In the State legislature, education is even more a high-priority issue than it is up here because the States will have primary responsibility for it, and it just seems to me we have tried so many different ways, all of them involving spending more money, on a system that in certain areas is failing.

Now, I think the public schools are great in a lot of areas, and so it seems to me the argument against it is, in essence, it would be like saying if you really didn't like a Chevrolet that you bought, the way to deal with that problem is to try and take over General Motors, and a better way to deal with it is to buy a Ford, and then General Motors is going to have to and will improve. I think all of the schools are going to get better.

I would like to hear your comments on it. I have talked long enough.

Ms. LEWIS. Well, I do hope that the Subcommittees will consider hearing Mr. Tyson, but let me say this to you. People who are afraid have a fear about something, and you can't be afraid when you are talking about making a change. The name of the game in this country is politics and money. So, if somebody is afraid that it is going to not save some of the children, the house is burning, as I said, you let everybody burn down and you don't try to save anyone.

The question that I ask people is, If your mother or your child was drowning and you had a choice to save one, which one would you save, and in most cases, nobody says I wouldn't save either one, I would just swim back to the shore. OK? So that doesn't even make sense. All I need is 5 minutes with them, and I can tell you whether it is politics or money. OK?

I am talking about a system. The Cleveland public school system is a business, and as I stated earlier, any company that loses 51 percent of its business would go out of business. When you think in terms of $9,000 per child and nobody is getting educated—we had about 3,000-some youngsters who took the proficiency tests, and only 115 passed. I mean, that is asinine. That is criminal. Do you see what I am saying?

It takes people with courage and guts to do what I and others like myself are doing in order to begin to make a change. Somebody has to start to change.

I don't know whether this will make very much sense to some people. The children of Israel—and I always go back to the Bible. The children of Israel wandered around in the wilderness for 40 years, a journey that they could have made in 1 month if they had only paid attention, OK? The other thing is that all of them came out, and then they began to grumble. Everybody over 20 got killed. So what are we going to do here? This is the same world that was here from the beginning.

We need to help people, and there is only one way we can help people: it starts with one individual. One individual has to make up his mind that, come hell or high water, he is going to make a difference. Choice is the best thing for a failing system, and when people say they are afraid, you can't see what they see because you are not standing where they are standing.

I don't worry about seeing what other people said when I know it is going to work for the people that I represent. We have proved that it would work, and when you take most of the people who are opposed to trying to make a difference, when you really think in terms of it, it only boils down to two things—politics and money. It has to be one of the two.

Chairman CUNNINGHAM. The gentleman's time has expired.

Mr. Fattah.

Mr. FATTAH. Thank you, Mr. Chairman.

I want to, first of all, thank the entire panel. Race is a very sensitive subject in our country these days, but it is an important subject. I think it is very, very important that we take a keen interest in how these issues progress.

This is the third panel we have heard from this morning. In each of those panels, there has been a majority of African-American in terms of the witnesses that have testified. That is a historical occurrence here in the Congress.

Now, you would miss this point if you didn't know that African-Americans made up only 12 percent of our population. I have been coming to hearings like this forever. This has never happened. It is as if when we want to talk about welfare reform or poverty that somehow we have some either special insight or nobody else should be included. There are no people who represent concerns of the Appalachian region in our country or poverty and its impact and white America, Hispanics, Native Americans, and now you have proven that there is no monolithic viewpoint in the African-American community on any of these issues, choice, welfare reform, and the like, and I think that is important. But I do think that it is instructive to the Subcommittees that if we are trying to address the issue of poverty, if that is our concern, that the poverty and its impact is not focused on the African-American community. It is a broad-based problem in our Nation.

If we are looking at public education, there are 55 million students in public schools in our country. The majority of Americans, black and white, say they support public education. They want to invest more dollars in it.

Now, maybe there are those who disagree. Maybe there are people who support choice. There are people who, even like myself, have some difficulty with choice as it relates to religious schools and might be willing to support a choice that related to public and private schools, but the point is the issues around public education are not that our system is failing.

You will hear my Republican colleagues get up on the floor any day and tell you we are the greatest country in the world, that America is the greatest country in the world, we have got the biggest economy. Where do you think the majority of Americans were educated? Do you think they went to public schools? Absolutely. Do you think they went to public institutions that provided the wherewithal? Most of our young people don't get a chance to go to Yale, or—

I went to the University of Penn—the Ivy League schools. Most of them are going to go to the State-supported universities. Most of the Members of Congress who are here, who constantly complain about the last 40 years of our country heading in the wrong direction, had the prime of their life, their development, their opportunities to serve here in the Congress over these same 40 years.

We heard from Ms. Parker earlier who said she got a Pell grant. I got a Pell grant when I went to college. We have Members of Congress who want to cut Pell grants. They want to cut off the opportunity whether you are coming out of private schools or public schools to go on and get an education.

We need to be careful that as we deal with these issues on welfare, on whether we are going to move forward on renewal communities, that we don't allow people to box us into situations where the public has some perception that these changes are only going to impact on certain people because it is not.

The best thing and maybe the worst thing that could ever happen is for some of these proposals to actually become law. Look at what we are discussing here. We are talking about taking resources away from public education. We supply education for the majority of the people in our country, a system that desperately needs additional resources to provide the opportunity for some few, small number of young people to go on and get the best education available, supposedly.

Now, in reality, look at what happened with Pell grants when we provided them to for-profit proprietary schools. Look at the biggest scandal we have got. It is almost bigger than the S&L scandal because in every poor community, you want to be a cosmetologist, you want to be a welder. Come on down, $6,000 for a 3-month training program on how to be a dog groomer. People who are rushed into these situations, wasting precious public dollars, when they could be at a community college, they could be at a State university, they may not get to Yale, but they could find their way to a fairly productive life, are being conned into situations because people are chasing these dollars.

This issue of welfare for private and religious schools, my fear is not about the schools that exist today. My fear is about once this bill has passed, the people who ingenuously will go out and establish institutions that are convenient, but empty in terms of what they provide to young people.

This Congress is concerned about welfare. It is not across the board. We can't seem to do anything about the couple-hundred-billion dollars that we spend on corporate welfare. We don't mind farm subsidies. When it comes to helping people, somehow we have got big concerns. We need to be careful as we deal with these issues, and I think the Subcommittees and its work should be broader in its focus.

We should never see a situation where somehow we are painting some picture that is absolutely untrue in terms of the impact of this bill. Why all of a sudden do we have this kind of disparity in terms of the witnesses that are coming forward to talk to us about these issues?

Thank you, Mr. Chairman.

Ms. LEWIS. Can I address myself to that?

Chairman CUNNINGHAM. The gentleman's time has expired, and I would recognize Mr. Kildee.

Mr. KILDEE. I thank you, Mr. Chairman.

I would like to get back to a point that I raised earlier this morning before the other panel, and I think, Ms. Stallworth, you raised it in your testimony, where it says eligible children whose parents have applied to receive a scholarship under this title shall be subject to the admission criteria of each scholarship school, alternative public school, and nothing in this title shall be construed to guarantee the right of an eligible child to attend any scholarship school or alternative public school.

My fear is that a scholarship school, particularly, is going to, to use the term we use very often, cherrypick and take those students who are the better students, take the all-A student or the person who has the potential for all-As and not take the student who is maybe not academically doing as well.

Do you think there is a danger of cherrypicking in this bill?

Ms. STALLWORTH. Absolutely. I mean, private schools at this time already do that. You have children whose parents are interested in the international school, maybe not even be an academic reason. "Socially, we didn't observe the behavior we like" is what private schools can say. They have their criteria, unlike public schools. They are not told that enrollment has to be open, that you have to take all children who come to your door. They are not told that if a child comes to you after they have tested, you must take him or her. In many Catholic schools, in many religious schools, as well as parochial private schools, they do test. The child has to pass that test to get in. This says that if I choose the gifted and talented school, even though my child may be a C student, the school has the right to say my child can't enter, based on the academic criteria.

So it will happen. It is not something that might happen. It is something that will happen.

Mr. KILDEE. I think it is also a possibility of one of those scholarship schools actually recruiting, going out and seeking the very best students and recruiting them. What I worry about in that instance of where they are not required to take a student is this. I have said this for years. This is my concern. If parents make a decision to have their children leave public school B to go to school A, that may assist those students whose parents make that decision, but I worry about what happens to the students who are left behind in public school B as more and more students leave, draining resources from that school. I really worry about it. I think we have to try to make the quality of education for everyone.

Ms. STALLWORTH. I think a good example of that is shown by New Orleans, where they have created a public school choice system. What has happened with schools in certain neighborhoods is that students have left. For the ones that remain, the conditions of that school have deteriorated, but all the students can't go to all the best schools. There is no way that every child is going to be able to fit into the top school. That school is only going to have so many spaces.

What happens is that yes, the children are going to suffer because of the declining budgets in that particular school. We have school budgets. Each school gets a general budget that it has to operate on. So, as they lose students and they lose funds, then they can't fix the roof. They can't do the teacher training that they have to do.

We have definitely seen that impact in the last year in the District of Columbia because of the budget cuts. Our schools have suffered tremendously, and with the teacher furloughs and now teacher RIFs, class sizes are increasing.

I heard the student to my right say that she had the benefit of small classes. Well, this fall, our schools are going to have to increase class sizes because of budget cuts. So our classes aren't going to get smaller just because some students have the opportunity to leave. They are going to get larger. The classes are going to increase because there will be less money to pay all the teachers, and there are going to be more students in each classroom.

I also wanted to address the analogy of the house burning down. Well, in this case, I see it as: I have an opportunity to put water on the fire, or I can let it burn and save water. I want to put the water on the fire, not let the whole house burn at all.

Mr. KILDEE. It would seem that in most State-aid formulas, and I served 10 years in the State legislature, that the amount of money that goes to a given school depends on the enrollment there, and if you lessen the enrollment, then you lessen the dollars going there, and you just go into a real vicious cycle. I really worry about those students who remain behind in school B as people go to school A. I think we have to have quality for all of our students.

Ms. STALLWORTH. Right. You lessen not only the general fund, but you also lessen the financial funds that come from the Federal Government that benefit education. This will disadvantage the children, and some of them are still going to—many of them, most of them are still going to be in our public school system.

Mr. KILDEE. Thank you very much, Ms. Stallworth.

Thank you, Mr. Chairman.

Did Ms. Lewis want to get a comment in?

Ms. LEWIS. Yes, I did. To talk about budget cuts, Cleveland has the largest budget that it ever has had in the history of Cleveland, 600-and-some-million dollars. It has fewer students than it has ever had. It only has 66,000 youngsters, and it has been losing that.

I didn't come down here to debate. I came down here to tell you that as a legislator, I did not make a decision about my position until I talked to the 9,000 parents in my ward and until I talked to youngsters and asked them what we need to do to help them get an education. An 11-year-old child said to me, When I go home, I have got to fight, when I go to school, I have got to fight, and if I come to the community, I have got to fight, I want to get an education. I am not saying something to you about what I think.

I am talking about what the people in my neighborhood said, and most legislators, if you talk to their folks, they will tell you. I say that to you so you will know where my information comes from.

Mr. KILDEE. I think our intentions our pure. Your intentions our pure, and mine are pure. I always worry about what I call the principle of unintended consequences. We have some intentions, but very often there are some unintended consequences.

Ms. LEWIS. But the point is that if you monitored the government dollar as you were supposed to, you wouldn't have to worry about it. We don't monitor the government money. That is what put my neighborhood where it is because we put money out there but we didn't monitor it. You need to monitor where the money goes. You need to make sure that the youngsters are benefiting.

We can match wits all day long. We have children out there who are suffering, and if we don't invest in our children, who is going to be able to take your seat? What are these people going to look like that have to come up and run our country and what have you if we are here long enough? We need to take it seriously.

Mr. FATTAH. Most of the ones that are here now went to public schools.

Ms. LEWIS. You see, the public school was different when you went.

Chairman CUNNINGHAM. The gentleman's time has expired.

Ms. LEWIS. The public school was different when you went. It was different when I went because teachers were allowed to whip your bottom. Now they can't touch you. They go to jail. And I think you are too young to try that.

Mr. TALENT. Mr. Chairman, I know this request may not be the best—

Chairman CUNNINGHAM. I have just a few statements, and I will yield a little bit of time. We do have another panel coming. We have Hon. Jack Kemp waiting in the wings.

I would say to the gentlelady that instead of letting your friend speak, we have to have some order on the Subcommittees. If I did that, Ms. Stallworth could say, Hey, I want someone from my side, and we are trying to balance it as much as we can.

What I would like to do is, first of all, to say that during the last 2 years, as the Republicans have had the majority, that we have increased Pell grants. We haven't cut, not a dime. We have increased Pell grants. As a matter of fact, the exact figures, to be factual, in 1993, it was 2,300. In 1994, it was 2,300. In 1995, it was 2,340. In 1996, it went up to 2,470. In 1997, it goes up to 2,500. So we have not cut Pell grants, and I think the demagogue of folks saying that we have cut, when we come up with a figure and the President comes up always with a higher figure and then they take and say, Hey, you have cut; it is not a fact.

I would say also that when you talk about welfare reform, you should remember that the first time we attacked the problem of welfare reform, the President had the White House, he had the House and the Senate, and nothing was done. I think to uptake that and get bipartisan support for this is very, very important. I think from all indications that the President is finally going to sign a welfare bill.

I think he has taken a step in leadership because when he does that, his far left is going to give him a lot of heat at the convention, but the President is stepping up to the plate, and I think he is going to show his leadership, and I think he is going to sign this welfare bill.

I would also say to the witnesses, my first district was 70 percent minority, and I won in that district. I have a private school that is represented by 70 percent minority, much like, I assume the one that Ms. Muldro went to. Do you know that 97 percent of those children go to college? Not just 97 percent go, but about 95 percent of them stay and don't drop out of college. When it comes to proprietary schools, we have had a problem in the past. Unfortunately, not everyone is going to go on to a college education, and we need a strong vocational education system as well.

In my district, at many of the jobs, our children don't qualify even at an entry level, and they need somewhere to go. As we ask people to get off of welfare and they have not finished high school, in many cases, we are finding out that the only male figure that these folks have had is when that male figure got the younger female pregnant, and that in many cases the mom doesn't even raise the child, that it is the grandmother. I don't know how we solve that problem. I mean, it is a major problem, but we have got to work in that direction.

I think that the shining cases like Ms. Muldro, her mom, a single parent, had an emphasis—I look at a lot of the Asian community that come here. They don't have very much, but, boy, I will tell you, they stress education. I never went hungry in my life, except I ran away from home once and I got kind of hungry, and that lasted for about 1 week and I decided to come back because I was hungry, but I have never had to go through that. My parents didn't have a whole lot, but they sent my brother and I through college, and they spent every dime.

I would recognize Ms. Muldro.

Ms. MULDRO. I just want to say one thing. I am actually not special at all. I don't shine. There is so much untapped talent in the underprivileged communities, and when I look at the students that I go to school with, our only benefits are that we happen to be well educated. There are public school students, but they came from better public schools, from good neighborhoods, or from the specialized schools.

What we have to do, and one of the things that I like about this bill, is the fact that, hopefully, it will provide the necessary incentive for the public schools to improve because I understand the concern for kids that are left behind. If we don't try to save them or if we don't improve those public schools, what about all the students that are just trapped there, stifled by the public school system?

Chairman CUNNINGHAM. I would say, Ms. Stallworth, that in a school system, the average cost is $9,000 per student. In California, it is less than $5,000. When you have a system that is, in my opinion, a complete disaster, I don't blame the President for going to a private school. I wouldn't want my children in the District of Columbia system.

Ms. STALLWORTH. As Ms. Lewis said, I think maybe you need to come out and visit some of our schools—

Chairman CUNNINGHAM. I have. I have, ma'am.

Ms. STALLWORTH [continuing]. Because we are graduating students in my—

Chairman CUNNINGHAM. Regular order, Ms. Stallworth.

Ms. STALLWORTH. We are graduating students who are getting scholarships to Harvard.

Chairman CUNNINGHAM. I am asking for regular order, Ms. Stallworth.

Ms. STALLWORTH. Yes.

Chairman CUNNINGHAM. I have gone into your system, and I would also say that we have tried to provide some funding and scholarships for the District of Columbia children to allow them to escape that system.

Mr. Gunderson offered a good-faith bill to do that, which was rejected.

My time has run out.

I would say I thank the panel for coming, and I would recognize the fourth panel. I would recognize Hon. Jack Kemp, co-director, Empower America, Washington, DC, former Secretary of the Department of Housing and Urban Development and former Member of Congress. I would recognize Stuart Butler, Ph.D., vice president, Heritage Foundation, Washington, DC; Michael E. Porter, Ph.D., C.

Roland Christensen professor of Business Administration, Harvard Business School, Boston, Massachusetts; Helen Ladd, Ph.D., professor of Public Policy Studies and Economics, Sanford Institute of Public Policy, Duke University, Durham, North Carolina; and Terry Van Allen, Ph.D., director of Research Administration, University of Houston-Clear Lake, Houston, Texas.

If the gentlemen would please take their seats. As in the last panel, you will be recognized for approximately 5 minutes, and I will try to be a little bit lenient. You will also have time to respond, as 5 minutes goes by very, very quickly when you are having a good time. I would ask your indulgence that when I tap to try and at least summate your remarks.

You will also be able to submit questions for the record for the period of time.

With that, I would recognize Stuart Butler, Ph.D., vice president, Heritage Foundation, Washington, DC.

I will just go through the list as I read them, except Hon. Jack Kemp has not arrived yet.

STATEMENT OF STUART M. BUTLER, PH.D., VICE PRESIDENT, HERITAGE FOUNDATION, WASHINGTON, DC

Mr. BUTLER. Thank you very much, indeed, Mr. Chairman, for the opportunity to testify on what I consider an extremely important bill.

I have worked on the issues of inner city, urban problems and economic development for 17 years, and particularly have been involved in the development of enterprise zone legislation throughout that entire period, working initially with Jack Kemp and with others ever since. So I look at this bill from that vantage point.

All of us who have worked on these kinds of issues over the years have learned a great deal, and the legislation before us contains the crucial elements that reflect experience and the things that we have learned from it.

In particular, it not only has economic incentives within it, but it recognizes there are things that must compliment those economic incentives in order to prompt economic revival in the inner cities.

Particularly, the school choice provisions are extremely important. I happen to have two children in the District of Columbia public schools, but it is very clear that many public schools in many inner cities are destroying the lives of children. Parents must have the ability to move their children to schools that will help to improve their lives and give them the start they need, the start that includes the kind of values and this kind of dimension that is so often lacking in our public schools.

Even though I have chosen public schools for my children, I believe that others should have the right to choose the schools that are necessary for their children.

The provisions in the bill on drug prevention and treatment are also crucial, particularly using faith-based approaches to those concerns. They work, and that is absolutely essential to complement business and economic development in these areas.

Stimulating nonprofit organizations, the kind of community groups that we see all around the country as being at the spearhead of turning around inner-city areas, is absolutely crucial, and

the provisions in the bill would give strong incentives for people to support these. Unorthodox, in many cases, community-based organizations are essential to complement the economic incentives.

When you look at the economic incentives, which is what this panel is focusing on, it seems to me that our experience shows two things are absolutely vital. Number one, that we focus on small business development in these areas. Small business is where the jobs come from generally, and particularly in the inner cities of America. Small businesses are very often the extension of effective community-based approaches for dealing with the inner cities.

If you look, for example, at the experience of the tenant management movement in this country, we see that one of the natural developments, after control of the housing communities themselves is achieved, is that these organizations very quickly develop an economic component based on developing small businesses such as maintenance firms and other such kinds of businesses, which are small businesses, which are the next stage of development in these depressed areas.

We find also that small businesses can use old buildings. Small businesses are able to fit into the nooks and crannies of communities in ways which large companies cannot.

Small businesses also contribute in important ways to the street traffic and general life of the community. We see this in communities all over this country, successful communities. Small businesses are crucial to this, and small businesses typically tend to hire local people much more readily than large firms do.

So the first thing is that small business is absolutely essential. Second, is that in order to get small business developing in the depressed inner cities, it is important and vital to have a much stronger flow of capital into these firms.

Small businesses say over and over again that next to redtape and other kinds of bureaucratic restrictions, access to basic startup and working capital is the biggest impediment to moving forward. That is particularly true in the more depressed areas, particularly for first-time businesses. Therefore, it is necessary to address this.

It is important to understand that the sources of capital for these kinds of businesses are not usually banks or the Small Business Administration or large institutional forms of capital. These first-time small businesses in depressed areas will either survive or die from want of informal capital, typically from people that they know or small investors who are willing to take a risk in a high-risk area. It is this patient capital which is looking for an improvement in value that is the crucial thing. This focus on the capital need for small firms has been missing so far in enterprise zone legislation that has been passed by a number of Congresses.

We know there is overwhelming evidence to suggest that reducing the capital gains tax is the best and most effective way of channeling capital into these high-risk types of firms. That is why that element of the legislation is so important in tandem with the rapid depreciation schedule for stock purchases that is in the legislation.

I believe the bill we have before us really has it exactly right based on my experience looking at the problem of the inner cities. Because it understands the nature of the development process and why economic development goes hand in hand with other crucial changes in these areas. If enacted, this legislation could be one of the most important pieces of urban legislation passed during this century.

Thank you, Mr. Chairman.

[The prepared statement follows. The Heritage Foundation publications dated July 25 and 29, 1996, are being retained in the Committee's files.]

STATEMENT OF STUART M. BUTLER, PH.D.
VICE PRESIDENT
HERITAGE FOUNDATION

Mr. Chairman, my name is Stuart Butler. I am Director of Domestic Policy Studies at The Heritage Foundation. I am pleased to be invited to testify on this important bill. I must emphasize that my remarks are my own opinions, and should not be construed as representing any official position of The Heritage Foundation.

For over 16 years I have studied the causes of urban decay and the features needed for inner city economic revival, and have worked extensively on developing an effective enterprise zone program ever since Jack Kemp first introduced legislation in 1980. From what I have learned during that experience, I believe the "Saving Our Children" legislation incorporates the crucial elements needed to revive America's most blighted inner city neighborhoods.

Several Key Elements Needed: The legislation correctly recognizes that to revive these neighborhoods, economic incentives are necessary but not sufficient. It is vitally important to transform the opportunities for education and to make schools accountable by empowering families with school choice. It is equally vital to change the moral and social climate in the community. That is why extending school choice to religious schools is essential, and reflects the desires of inner city parents, who understand the need for religious values in education far better than most education "experts." That is also why it is important, as the bill does, to open the door wider to faith-based programs to deal with drug addiction. And it is vital to foster effective community-based approaches to assist the poor in these neighborhoods. That is why actions to promote citizen-supported private charity are needed.

The bill contains all of these crucial elements.

I have been asked to confine my observations to the issue of capital formation in the process of urban renewal. While this is only one element of the economic strategy in the legislation, I believe it is in may ways the most important one and the one most obviously lacking in federal enterprise zone legislation previously enacted into law. Without steps to encourage private capital to flow into renewal communities, or enterprise zones, their economic development will be anemic.

Importance of Small Business

To understand why capital formation is so crucial, and how legislation can encourage it, it is important to understand first that the central economic goal in inner-city revival must be to foster small business creation. Unfortunately, many federal and state officials still cling to the belief that the best way to assure economic growth in a poor neighborhood is to encourage large companies to locate there. They take it as self-evident that a firm employing 100 people must be better than one employing three. They also assume that progress is impossible unless a large firm is persuaded to become the nucleus or anchor for economic expansion.

In almost every instance this is an unwise strategy. The fact is that large firms are poor generators of new jobs. Research by David Birch at MIT and others indicates strongly that it is small firms that are the primary generators of jobs in the U.S. But large companies are not appropriate targets for another reason. Studies of location decisions of large firms indicate that chief among the factors influencing the decision are the availability of properly trained employees and an environment conducive to attracting and keeping skilled workers and managers. Tax incentives are well down the list of factors. Thus when a city attempts to retain a large company, or attract a new venture to a blighted neighborhood, through a package of tax and other financial incentives, the price to the city is extremely high. This price is increased by the understandable reluctance of other cities to accept the relocation of one of their large firms. Thus we see a "war of incentives" between competing cities with a very high cost for the taxpayer and yet very little real economic stimulus to the city that "wins" the location war. So a renewal program will be both expensive and largely ineffective if it seeks to recruit large companies to depressed urban neighborhoods. Instead the focus should be on creating the

conditions necessary to generate new small enterprises, preferably drawn from the underused resources within the neighborhood itself.

Other than the practical reasons of job generation and location decisions, there are many other reasons for focusing on small enterprises as the foundation for economic recovery in depressed areas. Among the reasons:

- ***Small firms tend to be more innovative and better able to adapt to unusual economic and social conditions.*** The urban analyst, Jane Jacobs, in her book, *The Death and Life of Great American Cities*, points out that risk-taking, innovative firms need to keep overhead costs as low as possible, so older buildings and low-cost neighborhoods are their natural habitat. Firms based on tried and trusted ideas locate in new buildings and neighborhoods.

- ***Small firms require modest capital and usually less sophisticated technology and worker skills.*** They recruit workers locally -- more often than not from people who walk in off the street. Clearly these firms are more appropriate for areas where capital and skills are in short supply.

- ***Small firms can be established by city-based organizations as part of their general program of reviving a neighborhood.*** One of the interesting features of the growth of tenant management in public housing, for instance, is that these management associations very quickly diversify and create businesses both to employ local residents and to improve the availability of goods and services to the neighborhood. By removing the red tape so often in the way of such ventures, the economic objectives of the enterprise zone strategy can be combined with a more general approach to addressing the conditions of an inner city.

The Obstacles Inner-City Small Firms Face

If we are to foster the growth of small enterprises within large dilapidated neighborhoods, we must pay close attention to what these firms say are the obstacles they face. One is the plethora of local taxes and red tape that frustrate owners and drive up the cost of opening and continuing a business. For large firms, these are irritants to be handles by one of their departments. But for small, financially-strapped firms, these local obstacles can be business-killers. That is why it is necessary to encourage local authorities to streamline zoning, building codes, and other regulations and permits that can be an enormous obstacle to a small firm. The "Saving Our Children" bill wisely includes this feature. Similarly, firms stress the lack of workers not just with the appropriate skills, but also the appropriate *attitudes* to work. That is why the bill's focus on improving education by providing more opportunity for children to go to schools. emphasizing values is so important.

Capital is Crucial: But the other crucial ingredient is capital, particularly start-up capital. People who have been in business successfully for years usually have little trouble going to a bank to obtain capital to expand. They are a known quantity and a known risk. People starting their first business are not known quantities, and are rarely able to raise funds from banks and other formal sources of capital. People trying to start businesses in the inner city are even less likely to be supported by financial institutions.

Other than personal savings, the main avenue open to these firms is direct investment from individuals they know or from individuals who are willing to take a chance on a high-risk venture. Thus what Congress needs to do is to provide investor incentives, in particular capital gains relief, to encourage outsiders to provide them with seed capital. "I cannot adequately stress the importance of capital incentives," said Senator Joseph Lieberman (D-CT) in his criticism of the lack of adequate capital incentives in the Clinton Administration's enterprise zone program, adding that "...they must be targeted toward small business."

Further, even when these firms get off the ground they tend to be chronically short of cash in their early years. Thus tax incentives to improve their cash flow, enabling them to take on labor and meet the other routine requirements of running a business, are crucial to success. What these firms need to keep going, in other words, are tax incentives to enable them to keep down costs, and to recoup as rapidly as possible the major expenses they make in buildings and equipment.

The bill includes provisions that would achieve these objectives. Individual investors in risky start-up businesses are not looking for a steady flow of income from their investment, they are interested in the business rising in capital value and their investment rising in value. They are interested in the final return. That is why the 100 per cent exclusion from capital gains tax in the bill is exactly the right incentive. The expensing of stock purchases complements the "cash out" benefit of the capital gains exclusion with "cash in" reduction in the effective price of their investment.

In conclusion, Mr. Chairman, this bill is in my view the most important piece of urban legislation in years. It correctly identifies the root issues in urban renewal and deals with them directly and effectively. If this bill becomes law, it will be a true lifeline to the children of our most depressed inner cities.

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Chairman CUNNINGHAM. Thank you, Mr. Butler.

Michael E. Porter, Ph.D., C. Roland Christensen professor of Business Administration, Harvard Business School, Boston, Massachusetts.

And I thought capital gains reduction was only for the rich.

STATEMENT OF MICHAEL E. PORTER, PH.D., C. ROLAND CHRISTENSEN PROFESSOR OF BUSINESS ADMINISTRATION, HARVARD BUSINESS SCHOOL, BOSTON, MASSACHUSETTS

Mr. PORTER. Thank you, Mr. Chairman.

In the interest of brevity, I have prepared written testimony, and I am also including two more extensive papers for the benefit of the Subcommittees.

I am not an expert on urban policy, but a professor at the Harvard Business School. I have spent my career working with companies all over the world on problems of competing more effectively. I have come to the issue of distressed communities out of frustration; much of our attention in trying to revitalize distressed communities has taken a social rather than economic approach.

I believe it is time to balance that equation better, to marry a social strategy to increase human capital and meet the immediate needs of urban residents with an economic strategy that creates genuine economic and job opportunities for inner-city based residents. That is what I have been working on for the last 3 years, and is the focus of an organization that I founded called the Initiative for a Competitive Inner City, which is trying to serve as a catalyst for private sector efforts around the country.

The basic message I would like to convey is that this bill is one of the very few to attack the problems of our distressed communities with an economic approach. I think title I, in particular, contains many useful provisions to improve the business environment in inner cities, to make it easier to start and build businesses in inner cities, to open the door for entrepreneurial activity that is accessible to inner-city residents, and to provide some economic incentives for capital to flow into inner-city areas.

I believe from my research that there are genuine competitive advantages of inner cities as business locations, and that these advantages have been ignored, untapped, and often eroded by a lack of attention or a lack of focus. This bill starts to recognize that possibility that the inner city could actually compete, that there could be a vital economy there if we create the right conditions, if we change perceptions and attitudes, and if we focus our attention on building businesses and creating jobs. It is a matter of balance, and I think the importance of this bill is that it starts to redress an imbalance.

Even well-intentioned efforts like the enterprise zone program, when you look at what actually happens in these cities, result in 98 percent of all the attention getting channeled not to an economic strategy, or to building vital businesses, but in putting more resources into the same kind of social programs that have produced marginal results.

So, I am in strong support of this bill. As you read my testimony and look at my articles on the subject, I think you will see why.

Let me comment specifically on the bill and on some of the areas that I particularly support as well as some areas where I think the bill can be improved.

First of all, I want to strongly support the regulatory relief provisions of the bill. Inner cities are the most regulated places on Earth from a business point of view. It is truly ironic that the places that need business expansion and new job creation the most are the places where regulation is greatest. This bill recognizes the problem and, for the first time that I am aware, starts to address it.

I strongly support the capital gains exclusion for businesses based in the inner city or "renewal community-based" businesses. This is a very powerful way to encourage investment in these areas that is based on economic logic. A capital gain does not occur unless a business is viable. There have been too many plans to subsidize businesses or give them tax credits of one sort or another that don't presuppose a viable business. The result is that we have stimulated a lot of unsustainable activity.

The bill could be improved if it would include, along with the capital gains exclusion, a 100-percent exclusion for dividends paid from companies based in the inner city. Many of the businesses that will grow up in inner-city areas will not be businesses that are good candidates for initial public offerings. These are not businesses that are going to be sold in the public capital markets. These are family businesses of moderate size. Such businesses are not likely to be bought and sold by venture capitalists.

There needs to be a way to get return to investors that doesn't require selling the business, and that is why a 100-percent exclusion for dividend payments from stock ownership in these businesses is important. It allows a return to investors without the need to sell the business.

I would raise cautions about the expensing provisions that are contained, I believe, in sections 8(b) and 8(c) of the bill. Whenever I see provisions like these, I worry that the tax benefit will distort the flow of capital into uneconomic activity.

Finally, the bill would benefit by being more broadly in terms of business development and not only in terms of personal or individual development. We need to send the signal that business and economic revitalization are what is needed to inner-city renewal, not just individual initiative.

Thank you.

[The prepared statement follows. The booklet entitled "The Competitive Advantage of the Inner City" and a paper entitled "An Economic Strategy for America's Inner Cities: Addressing the Controversy" are being retained in the Committee's files.]

Professor Michael E. Porter
Harvard Business School
July 30, 1996

Testimony before the Ways and Means Subcommittee on Human Resources and the Economic and Educational Opportunities Subcommittee on Early Childhood, Youth and Families

My name is Michael E. Porter. I am the C. Roland Christensen Professor of Business Administration at the Harvard Business School where I conduct research on competitive strategy for companies, and on the competitiveness of nations, states, and cities. I have led a major research effort over the last three years on the economic development challenges facing America's inner cities. I am also founder and chairman of the Initiative for a Competitive Inner City, a national organization whose mission is to catalyze private sector initiatives to foster business development in inner cities and employment opportunities for inner-city residents.

I welcome the opportunity to provide testimony to this Committee in support of HR 3467. The Bill takes important steps toward a new strategy for revitalizing America's distressed communities. In my testimony, I would like to place the Bill in a broader economic context, outline an overall strategy for inner city economic revitalization, relate the Bill to this strategy, and comment on some areas where the Bill might be strengthened. In addition to my written testimony, I am providing two more extensive papers to the Committees: *The Competitive Advantage of the Inner City* and *An Economic Strategy for America's Inner Cities: Addressing the Controversy*. These contain a more detailed discussion of the findings of my research as well as my recommendations for policy.

A Strategy for Inner City Economic Development

These hearings, and this Bill, could not be more timely. The economic distress of America's inner cities, as well as some rural areas, is one of the most pressing issues facing the nation. The lack of businesses, investment, and most importantly, jobs in these disadvantaged areas not only perpetuates a crushing cycle of poverty but fuels other social problems such as crime, drug abuse, and disintegrating families. I will concentrate in my testimony primarily on inner cities, although the same principles can be applied to depressed rural areas.

The time has come to recognize the revitalizing the nation's inner cities requires a radically different approach. We must stop trying to cure the problems of these communities by perpetually expanding social programs and hoping that economic activity will follow. What is needed is an economic strategy for inner cities, focused on business and job development, as a complement to (not a substitute for) the many programs designed to increase human capital and meet the basic human needs of disadvantaged populations. Today, the great majority of federal efforts and resources, as well as those at the state and local level, are targeted toward meeting the immediate needs of inner city residents rather than generating jobs and economic opportunity that will mitigate the need for social programs in the long run.

Past and present efforts at economic development in inner cities, where they have occurred, have too often attempted to defy market forces rather than harness them. A sustainable base in inner cities will only be created as it has been elsewhere—through private, for-profit initiatives and investment based

on economic self-interest and genuine competitive advantage—instead of artificial inducements, government mandates, or appeals to charity. An economic strategy for inner cities must focus on the position of these areas within the regional economy rather than treating inner cities as separate. While the challenges of global competition and technological advances have adversely affected inner cities, they have also created new opportunities. The future inner city economy will not look like the urban economy of many decades ago but will contain many different types of businesses suited to the modern economy.

Instead of starting with the premise that inner cities are devoid of business and cannot compete, an economic strategy must begin with the premise that inner cities can and must compete. There are many businesses present today in inner cities despite the well-known problems of these areas as a business location. Inner city businesses are concentrated in sectors such as food processing and distribution; recycling and remanufacturing; support services for corporations; entertainment and tourist attractions; logistics and transportation; and other fields where there are genuine competitive advantages of an inner city location. An economic strategy for inner cities must **enhance these competitive advantages**, while dealing frontally with the current disadvantages of the inner city as a business location. There is genuine economic potential in inner cities which is only just beginning to be recognized and tapped by the private sector. The private sector has already begun investing again in inner cities, led by retailers seeing an untapped market while facing saturation in the suburbs. With an economic strategy, this promising business activity could be multiplied many times over across the country.

The Competitive Advantages of Inner Cities

Our analysis of major cities nationwide has found that often-discussed advantages such as low-cost labor and real estate are largely illusory. Inner cities have available workers, but wages are not less than in rural areas or in other countries. Real estate costs may be lower than nearby high-rent downtown areas, but cheaper real estate is available in the suburbs and elsewhere. The changing nature of the world economy means that inner cities will not be able to compete if low-cost labor and cheap real estate are the only advantages.

Instead, we must recognize that the genuine competitive advantages of inner cities fall into four areas:

Strategic location. Inner cities occupy what should be some of the most valuable locations in their respective regions, near congested high-rent areas, major business centers, entertainment complexes, and transportation and communications nodes. As a result, inner cities can offer a competitive edge to logistically sensitive businesses that benefit from proximity to downtown, proximity to transportation infrastructure, and a central location amid concentrations of companies. The just-in-time, service-intensive modern economy is only heightening the time and space advantages of such a location. This powerful advantage, which has not been fully developed or utilized, explains the continued existence and growth of the many food processing, printing, business support services, warehousing and distribution, and light manufacturing companies in most inner city areas.

Unmet local demand. The consumer market of inner city residents represents the most immediate opportunity for inner-city-based entrepreneurs and businesses. Despite low average incomes, high population density translates into an immense local market with substantial purchasing power. Making the market even more attractive is the fact that there tend to be few competitors serving it. At a time when suburban markets are saturated, inner city markets remain poorly served—especially in many

types of retailing, financial services, and personal services. Inner city-based businesses which serve this demand, especially those focused on meeting its unique needs, will have an advantage over more distantly located establishments.

Integration with regional clusters. Longer-term opportunities for inner cities lie in capitalizing on nearby regional clusters of firms and industries—unique concentrations of competitive companies in related fields. The ability to access competitive clusters is much more far reaching in its economic implications than simple proximity to the city. Building on local clusters involves tapping powerful external economies and leveraging private and public investments in skills, technology, and infrastructure. A effective economic strategy for inner cities must focus on better linking them to nearby clusters. For example, Boston is home to a world-class healthcare cluster that abuts the inner city. There are opportunities to link inner city companies to this cluster as well as to develop focused programs for training and the development of job opportunities for inner city residents.

Human resources. While inner city populations present many workforce readiness challenges (discussed in greater detail later in this paper), inner city residents can be an attractive labor pool for businesses that rely on a loyal, modestly skilled workforce. There is the potential to build on this resource, with new approaches to education, job placement, and training. However, this requires debunking deeply entrenched myths about the nature of inner city residents. The first is that inner city residents do not want to work and opt for welfare over gainful employment. Although there is a pressing need to deal with inner city residents who are unprepared for work, our survey of businesses in inner cities nationwide shows that many inner city residents are industrious, loyal employees.

A second myth is that the inner city lacks entrepreneurs. In fact, there is a demonstrated capacity for entrepreneurship among inner city residents, most of which has been channeled into microenterprises and the provision of social services. For instance, inner cities have a plethora of social service providers as well as social, fraternal, and religious organizations. Behind the creation and building of those organizations is a whole cadre of local entrepreneurs who have responded to intense local demand for social services and to funding opportunities provided by government, foundations, and private sector sponsors. The challenge is to create a climate whereby other inner city residents, with similar talent and energy, build for-profit businesses that become meaningful employers, and create wealth.

The third myth is that skilled minorities, many of whom grew up in or near inner cities, only look for businesses and employment in more affluent areas. Today's large and growing pool of talented minority managers represents a new generation of potential inner city entrepreneurs. Many of these managers have developed the skills, networks, capital, and confidence to join or start entrepreneurial companies in the inner city. We know of some—including former students of mine—who are doing so. As the awareness of the economic opportunities in inner cities grows, more will follow.

Improving the Business Environment in Inner Cities

As business locations, inner cities suffer from many disadvantages: discrimination, high taxes and business costs in areas such as utilities and insurance, crime, poorly maintained logistical infrastructure, burdensome regulations and permitting requirements, environmental pollution, and a weak education and training system. A few general principles about improving the business environment in inner cities should be highlighted.

First, the inner city's disadvantages as a business location must be seen as an economic problem and must be addressed as part of an economic strategy. Too often, addressing weaknesses such as a

poorly trained workforce or deficient logistical infrastructure are approached with only the social welfare of residents, not the needs of business, in mind. For example, inner city training programs often fail to screen applicants—and even give priority to the least prepared residents in the name of fairness. Employers are then disappointed with the graduates.

Second, attempting to offset disadvantages with operating subsidies to businesses is futile. A more effective approach is to address the impediments to doing business directly. We must reduce unneeded regulatory hurdles, simplify permitting, reorient environmental clean-up requirements, and so on. There is simply no other solution.

Third, our research indicates that many of the inner city's disadvantages are not inherent, but the result of poor strategies and obsolete public policies. There are many best practices nationwide that could be adopted in every inner city. For example, the permitting process can be streamlined, as the case of Indianapolis illustrates. There, Major Stephen Goldsmith formed a panel comprised of ten local business leaders and entrepreneurs as well as 150 volunteers and charged it with examining all of the city's permitting and regulatory requirements. For each requirement, the panel asked, "Is there something unique about Indianapolis that would justify additional regulation above and beyond what is already required by the state and federal government?" The result was that entire volumes of antiquated regulations and permits were eliminated.[1]

Implications for Federal Policy

The federal government has an important role in inner cities, but a different role than has been played previously. First and foremost, the federal government must make economic and business development in inner cities a central priority, and allocate resources accordingly. Otherwise, inner city communities will never become self-sustaining.

The essential task of government is to do its part in improving the environment for business. Many aspects of this environment are influenced by governments at the federal, state and local level. By and large, government policy has driven up business costs in inner cities, or ignored them. Government has also stood in the way of business formation or expansion in inner cities, despite the pressing employment needs of distressed communities.

To improve the business environment in inner cities, the following areas take on high priority.

- **Physical infrastructure.** The quality of transportation and logistical infrastructure is essential to the competitive position of inner cities. Investments to improve the flow of people, goods, and services into and out of inner cities, and to better connect these areas with airports, highways, waterways, and railways, are essential to leveraging the most important strength of inner cities. In addition, modern, high-capacity telecommunications serving inner cities will unlock their potential as locations for additional support services for congested downtown business districts.
- **Regulatory streamlining.** It is ironic that the areas in the United States that are the most in need of business development are the most over-regulated. In areas such as zoning, permitting, environmental regulation, and elsewhere, regulations deter or drive up the cost of business activity with little benefit to health and safety. Businesses seeking to expand and increase employment are thwarted; competitive, low-cost retailers who would bring jobs and

[1] *City Journal*, Spring 1994, page 54.

lower prices to local residents are blocked from opening. A systematic effort to streamline regulatory processes and eliminate duplicating and unneeded regulations is necessary. One particularly pressing area is environmental regulations, where current approaches have unnecessarily deterred precluding much-needed real estate development.

- **Security.** The perception and the reality of crime are major deterrents to inner city business development. Current policies often neglect property crime and largely ignore commercial and industrial areas, however, which drives away jobs and stabilizing businesses. The burden of crime on residents only gets worse.
- **Training.** The problems of public education for inner city residents are well known, and the Bill makes positive recommendations in this area. As important, in many respects, is the ineffectiveness of the current programs for training residents of inner cities which are largely ineffective and disconnected from the needs of business. As in so many areas, programs to benefit inner cities have been disconnected from the needs of the economy.
- **Capital.** We need some creative approaches to stimulate sound business investment in inner city areas. Past approaches have focused too much on providing operating subsidies. These are dangerous, because they encourage unsustainable businesses. The Bill takes some important steps in the right direction about which I will comment further.

Commentary on the Bill

The Bill represents an important step in the direction of an economic strategy for distressed communities. Title I contains a wide array of steps that will enhance business and economic development in distressed communities which I strongly support. Its stress on regulatory relief is extremely important. There are many restrictions on entry into occupations and businesses that represent natural first steps for residents of distressed communities, which the Bill would eliminate. I also strongly support the 100% exclusion from capital gains for investments in "renewal community" assets held for more than five years. This is one of the single most powerful ways to encourage sound investments in these communities that are tied to profit—capital gains only arise from genuinely sustainable businesses. I also support the principle of the work opportunity tax credit, provided that the credit is only useable if the individual involved is employed for a minimum period (at least one year).

The Bill could be extended or improved in a number of ways which are entirely consistent with its objectives. First, I would recommend that the Bill also include a 100% exclusion for dividends paid by renewal community businesses or subsidiaries. Many of the businesses that are and will be based in inner cities are not businesses that are candidates for public stock offerings. In addition, many of these businesses are family owned and often family managed. Thus it is important to find a way to encourage investment in such businesses in distressed communities without requiring sale of the business to take advantage of the incentive. My proposal seeks to do so by eliminating the taxation of common or preferred stock dividends. Accompanying rules would be necessary to ensure that these dividends are not liquidating.

I would recommend that relief from taxation on dividends be substituted for the expensing provisions in Items 8b and c. Expensing runs the risk of encouraging uneconomic investments that are made largely for the tax benefits. This approach has failed repeatedly, and will not produce sustainable benefits to distressed communities. I would also suggest some modifications in the discussion of bank lending. The current provision is unnecessarily narrow, in its focus on CRA credits and on community development financial institutions. Our research suggests that a broader strategy is needed to encourage business lending in distressed communities which taps the expertise and resources of private sector, mainstream financial institutions. I have recommended the concept of a transaction fee to compensate

banks and other lenders for the added cost of making business loans in distressed communities, but leaving lenders with the default risk to ensure that the loans they make are economic. This and other approaches will be more effective than creating a new class of financial institutions and non-market driven lending incentives for these communities. Community development financial institutions should be encouraged and allowed to participate in inner city business lending, but only where there are adequate incentives to ensure that the companies funded are sustainable.

Most generally, I would suggest that the Bill be framed more broadly in terms of business development in addition to personal economic development. While greater participation in the economy by individuals is crucial, it is essential to recognize that businesses that can become significant employers will also be essential in these communities. A broader focus on business development could be accompanied by additional sections of the Bill in areas such as environmental regulation, urban transportation and communication infrastructure, and others. In some cases, there is existing legislation pending or under discussion which could be drawn together in a more comprehensive strategy.

Finally, I want to comment briefly on Title II and Title IV. These portions of the legislation encourage the use of alternative institutions for schooling and drug treatment and counseling. While I strongly support this principle, I would caution the Committees to include strong provisions relating to performance standards for the institutions involved. In the area of training, where I have extensive knowledge, there has long been a wide variety of training providers authorized to serve inner city residents. Unfortunately, however, these institutions have rarely if ever been held accountable for their performance. Most lack the expertise and relationships with the business community to either provide effective training, produce graduates that meet the needs of companies, or connect the training to employment opportunities. The result is that much of the money we spent on training has been wasted. It would be truly a tragedy if badly needed additional resources for education and drug treatment and counseling yielded the same outcome.

Chairman CUNNINGHAM. I thank the gentleman.

Helen F. Ladd, Ph.D., professor of Public Policy Studies and Economics, Sanford Institute of Public Policy, Duke University, Durham, North Carolina.

The gentlelady is recognized.

STATEMENT OF HELEN F. LADD, PH.D., PROFESSOR OF PUBLIC POLICY STUDIES AND ECONOMICS, SANFORD INSTITUTE OF PUBLIC POLICY, DUKE UNIVERSITY, DURHAM, NORTH CAROLINA

Ms. LADD. Thank you. I very much appreciate the opportunity.

Chairman CUNNINGHAM. Do you prefer "Ms. Ladd" or "Dr. Ladd"?

Ms. LADD. Either one, "Ms." or "Dr."

I appreciate the opportunity to testify here today. Central to the topic of this panel is the targeting of tax and regulatory relief to the 100 community renewal areas, areas characterized by high rates of poverty and high unemployment.

In this brief summary of my written testimony, I would like to make four main points. The first one is that given the overall purposes of H.R. 3467, I take the main goal of its geographically targeted subsidies to be improving the economic condition of the disadvantaged residents of those areas.

Implicit in that strategy is the reasonable view that community, as defined in geographic terms, plays an important role in a resident's well-being. However, I note that the English model of enterprise zone, on which this strategy is based, was designed primarily to invigorate small, economically distressed areas in which few, if any, people lived, and I have referred to that type of strategy in my written comments as a pure place strategy.

Now, that raises the question of whether the tax and the regulatory relief used as the appropriate tools in the English model are appropriate for your place-based goal of helping disadvantaged people.

That leads me to my second point. For a number of reasons, I believe that geographically targeted tax breaks and regulatory relief are not an effective strategy for helping the disadvantaged residents of the designated areas. There are a number of reasons.

One reason is that given some of the characteristics of the targeted area, such as high crime rates, for example, tax breaks may not be very effective in encouraging firms to locate in those areas.

Another reason, and this is the reason I want to highlight, is that if the tax breaks do generate new investment and new jobs in the designated areas, there is no guarantee that the new jobs will go to the local residents, and especially to the disadvantaged residents who have limited education, limited skills, and limited work experience.

In addition, given the goal of providing economic opportunity to local residents, tax rates designed as subsidies to capital and investment, as is the case with many of the tax provisions in this bill, are less appropriate than tax subsidies that encourage firms to use more labor; that is, to hire more workers.

Finally, targeted tax breaks may simply encourage firms and jobs to move from one area to another with no net gain in jobs.

Now, I recognize that H.R. 3467 addresses this last concern by trying to promote small firms and entrepreneurial activity, and this is the point that Mr. Butler was referring to.

In my view, though, while I agree with some of Mr. Butler's arguments, I think the small-firm strategy is oversold, and we can talk about that a bit more. The problem, in part, is that small firms are much riskier than larger firms and much more likely to fail.

My third main point is that evidence from the States' experiences with enterprise zones indicates that the cost in terms of foregone revenue of providing an additional job to a zone resident can be very high, on the order of $40,000 to $50,000 per job, per year.

Thus, I conclude that the enterprise zone approach, at least given how that approach has been implemented by the States, is not a cost-effective way to generate jobs for disadvantaged local residents.

My fourth point is that the use of tax incentives as a policy tool deserves as much or more scrutiny than policy implemented through the expenditure side of the budget. Such a strategy appeals to many people because it appears to be costless and it operates through private sector decisions rather than through the public sector. Clearly, however, there are large costs in the form of foregone tax revenue.

Another reason for close scrutiny is that the beneficiaries of such a tax-oriented strategy are often unclear. The benefits from various tax provisions, such as the elimination of capital gains taxation, are likely to accrue to the owners of the business firms, rather than to the local disadvantaged residents who you are trying to help.

To summarize, as should be apparent, I am quite skeptical of the claims of many of the supporters of an enterprise zone-type strategy for helping disadvantaged residents in distressed urban areas. Some of my concerns can be mitigated, in part, by attention to the design of the program. For example, tax breaks that favor the use of labor rather than capital would be more consistent with the goal of helping disadvantaged residents.

My greatest concern about such programs is that the low skills and social isolation of many of the disadvantaged residents in the targeted areas are likely to keep them from benefiting in any major way from whatever new jobs are attracted to the area. Thus, I would prefer that any policy initiative be much more heavily focused on education, and that is education for all of the children, and training than on tax breaks and regulatory relief for firms.

Thank you very much.

[The prepared statement follows:]

TESTIMONY OF HELEN F. LADD*

ON H.R. 3467, "SAVING OUR CHILDREN: THE AMERICAN COMMUNITY RENEWAL ACT OF 1996"

Hearings sponsored by the Subcommittee on Human Resources of the Committee on Ways and Means and the Subcommittee on Early Childhood, Youth and Families of the Committee on Economic and Educational Opportunities.

Tuesday, July 30, 1996.

*** Professor of Public Policy Studies and Economics, Sanford Institute of Public Policy, Duke University, Durham, NC, 27708. Tel. 919 613-7352. E-mail: hladd@pps.duke.edu**

Thank you for inviting me here today to talk about the use of geographically targeted tax breaks and regulatory relief as a strategy for economic development in distressed urban areas. An economist by training, I have spent the past 20 years teaching and doing research in the field of public policy, first at Harvard University and, since 1986, at Duke University. My particular expertise with respect to the topic of this panel is based on my 1994 article about the experience of state governments throughout the country with enterprise zones and also my essay about the use of the tax code to promote social and other goals.[1] My current work in the

[1] Many of the arguments in this testimony are developed more fully in Helen F. Ladd, "Spatially Targeted Economic Development Strategies: Do They Work?," in *Cityscape: A Journal of Policy Development and Research*, volume 1, number 1, August 1994. (U.S. Department of Housing and Urban Development). Also see Helen F. Ladd, "The Tax Expenditure Concept After 25 Years," Presidential address to the National Tax Association, Nov.

area of education policy may also be relevant.

Central to the discussion of this panel is the targeting of tax and regulatory relief to 100 community renewal areas, with such areas being characterized by high rates of poverty and high unemployment. I want to make four main points about this type of economic development strategy.

First, it is useful to distinguish what I refer to as pure place strategies, that is, strategies designed to improve the physical and economic condition of a specific geographic area, from strategies designed to help disadvantaged residents in distressed areas. Given the overall purposes of HR 3467, I take the main goal of its geographically targeted subsidies to be improving the economic conditions of disadvantaged residents of those areas.

Second, for a variety of reasons, geographically targeted tax breaks and regulatory relief may not be an effective tool for helping the disadvantaged residents of the designated areas. This conclusion is especially true when the tax incentives are oriented toward increasing investment rather than toward increasing the employment of disadvantaged residents.

Third, evidence from the state experience with enterprise zones indicate that the costs in terms of revenue foregone of providing an additional job to a disadvantaged zone resident can be very high, on the order of $40,000 - $50,000 per job per year.

Fourth, the use of tax incentives as a policy tool deserves as much or more scrutiny than policy implemented through the expenditure side of the budget.

In sum, while I fully support the goal of trying to improve the economic condition of disadvantaged residents in distressed areas, I urge you to reconsider the faith that this bill places in geographically targeted tax breaks and regulatory relief as a policy tool for that purpose.

Place-based strategies to help disadvantaged people versus pure place strategies.

The enterprise zone approach to local economic development concentrates tax abatements and other subsidies in small geographic areas. Originating in England, the idea of enterprise zones captured the imagination of U.S. Federal government policy makers such as Jack Kemp and others in the early 1980s as a potentially powerful strategy for promoting economic development in pockets of urban distress. Importantly, however, the goal of the English version of enterprise zones differed significantly from the goals of HR 3467. In particular, the term was used to refer to a policy for dealing with small areas in the most derelict and depressed sections of British cities. The areas, about 1-mile square in size, were typically old industrial areas, often near ports, which became vacant and rundown as economic forces reduced the demand for the warehouses or other businesses that once formed the economic basis for the area. Most of the zones housed very few residents; indeed, residential areas were often explicitly excluded from the zones. English policy makers hoped that a program of tax breaks and regulatory relief limited to the zone would produce a small urban industrial park that would yield economic benefits to the larger geographic area. I refer to such an approach as a pure place strategy.

In contrast, I understand the purpose of HR 3467 to be oriented toward helping the disadvantaged households who live in areas of concentrated poverty or unemployment. Central to this place-based strategy for helping people is the view that community plays an important

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13, 1994 in Charleston, South Carolina.

role in residents' well-being and that many low-income households define the relevant community in geographical terms. Starting from the finding that many communities in the nation's urban centers are places with high levels of poverty, high rates of welfare dependency, high crime rates, poor schools, and high levels of joblessness, the bill tries to change some of those conditions by targeting assistance to the 100 renewal communities. The question, however, is whether the policy tools of tax breaks and regulatory relief, which are the centerpiece of the English pure place strategy, are appropriate for achieving the goal of helping disadvantaged people. For reasons that I elaborate below, I think they are not.

Limitations of tax breaks and regulatory relief as a place-based strategy to help people.

My research suggests that there are four potential limitations of a policy of tax breaks as a place-based strategy to help people.

First, tax breaks may not be effective in encouraging firms to move to locate or expand in the designated area given other potentially undesirable characteristics of the zone such as high crime rates. As a result, many of the benefits of tax abatements may simply accrue to firms that would have located in the area anyway.

Second, even if the tax breaks do generate new investment and jobs in the designated area, there is no guarantee that the new jobs will be given to local residents and especially to disadvantaged local residents. Few local residents will be hired if firms require skill levels not generally present in the local population or if they continue to fill jobs by relying on existing labor market networks from which ghetto residents are isolated.

Third, the tax breaks are typically designed as subsidies to capital and investment rather than as subsidies to hire more labor. That is certainly the case for many of the tax breaks included in HR 3467. For example, the bill includes exclusions for capital gains, expensing of certain stock purchases, additional expensing of capital purchases, and a credit for rehabilitating buildings.

This focus on tax breaks for capital is unfortunate. A subsidy to capital is most attractive to firms that use a lot of capital relative to labor and gives firms an incentive to use fewer workers and more capital, neither of which is particularly desirable if the goal is to generate more jobs. Only by reducing the costs of production and thereby inducing more production can such a subsidy generate jobs. In contrast, a subsidy to labor would be more attractive to firms that rely heavily on labor and would encourage more use of labor relative to capital.

A more pointed strategy would provide financial incentives for the selective hiring of zone residents or disadvantaged workers. The work opportunity tax credit included in the bill appears to be consistent with this preferred approach.

Fourth, geographically targeted tax breaks may simply move firms and jobs from one area to another rather than generating new jobs, especially when the subsidies are designed to appeal to existing firms. In some cases the benefits of having more jobs in an area where lots of people are unemployed can exceed the costs of losing jobs in other areas. However, the more likely scenario is that additional jobs in the designated area simply mean fewer equivalent jobs in other areas.

Concern about displacement of jobs has led proponents of enterprise zones to support subsidies that appeal, not to existing large firms, but rather to small, entrepreneurial firms, a strategy that HR 3467 seems to be striving for. A focus on small, entrepreneurial firms is intuitively appealing because small firms may be more likely than large firms to hire local residents and to unleash their latent entrepreneurial energy. Proponents argue that such a

strategy not only increases the possibility that the jobs will represent a net addition to the stock of jobs but also has the advantage of giving residents a larger stake in the economic stability of the community provided that some of them have ownership shares in the new firms. The downside is that small, start up firms provide few non-wage benefits to their workers, involve a lot of risk, and face a high probability of failing.

State experience with Enterprise Zones indicates that the costs per job for a disadvantaged resident can be very high.

During the past 15 years, many states have enacted enterprise zone programs. Most of the 38 programs that were in place by 1993 can be categorized as place-based strategies to help people within the zones although some also have characteristics of the English pure place strategy in that they were also intended to revitalize areas regardless of who received the jobs and other benefits. Many of the state programs included property tax abatements, new-job tax credits or grants, and sales tax exemptions for construction materials and machinery. Other incentives available in some states included investment tax credits, corporate income tax deductions or exemptions, and low-interest loans. Two states (California and Indiana) included tax credits for hiring zone residents. Importantly, many of the programs also included some components on the expenditure side of the ledger such as improvements to infrastructure, technical assistance, and administrative staffing.

Various studies of these programs have yielded a wide range of conclusions about their impacts on job creation and the costs per job created, where the costs are the direct expenditures plus the revenues foregone as a result of the tax subsidies. Much of this variation can be attributed to two methodological challenges facing the researcher: distinguishing the effects of the zone and its various incentives from what otherwise would have occurred in the zone and determining whether the jobs in the zone are new or simply have been moved from nearby locations.

My review of many of the better studies provides the following range of basic estimates of the annual cost per job generated: $1633 per job in Evansville, Indiana to an infinite amount in Maryland. The estimate for Maryland reflects the conclusion of the U.S. General Accounting Office that the Maryland enterprise zone program generated no new jobs. Based on the information provided in the various articles, I adjusted the figures to develop a more comparable set of estimates of the cost of generating a job for a resident in the zone. My preferred estimates are in the range of $40,000 to $50,000 per job per year. Thus, I conclude that the enterprise zone approach, at least given how that approach as been implemented by the states, is not a cost effective way to provide jobs to disadvantaged urban residents.

The need for close scrutiny.

Implementing social policy through the tax side of the budget in the form of tax breaks appeals to some people because it appears to be free and because it operates through private sector decisions rather than the public sector. That such an approach is not free is now quite well understood. The costs of such subsidies are now explicitly embodied in the annual tax expenditure budget which lists all revenue foregone as a result of special provisions or incentives built into the tax code. The argument that tax breaks used to promote economic development are costless because they generate new jobs and hence new tax revenue that otherwise would not have existed deserves close scrutiny. Even with some form of dynamic accounting for revenue estimating, tax revenue would fall if, as is often likely to be the case, the new jobs in an enterprise zone or renewal area simply displaced jobs elsewhere.

Also, close scrutiny of this strategy is needed to determine who benefits from the strategy. While the stated goal of Congress may be to help disadvantaged households, the tax

abatement strategy is likely to generate the greatest benefits to high income households in their capacity as owners of the firms receiving the tax breaks. Even if a place-based strategy were successful in generating jobs for local residents, some of the benefits of the higher wages for local residents might still be transferred away in the form of higher land prices or higher rents that residents might have to pay to nonresident landlords.

A final reason for close scrutiny of any policy that provides benefits through the tax side of the budget is the open-ended entitlement aspect of the subsidy. As long at the program is in effect, anyone eligible for the tax breaks can receive them whether or not the desired benefits are generated. To me it seems a bit strange that Congress would be interested in replacing one form of entitlement, namely welfare benefits, with another entitlement for which the distribution of the benefits is so unclear.

Summary

As should be apparent, I am quite skeptical of the claims of many of the supporters of an enterprise-zone type strategy for helping disadvantaged residents in distressed urban areas. Some of my concerns can be mitigated in part by attention to the design of the program. For example, tax breaks that favor the use of labor rather than capital would be more consistent with the goal of helping disadvantaged residents. My greatest concern about such programs is that the low skills and social isolation of many of the disadvantaged residents in the targeted areas are likely to keep them from benefitting in any major way from whatever new jobs are attracted to the area. Thus, I would prefer that any policy initiative be more focused on education and training than on tax breaks and regulatory relief for firms.

Chairman CUNNINGHAM. Thank you.

Mr. Talent.

Mr. TALENT. I want to thank the panelists, especially for their patience.

Mr. VAN ALLEN. Excuse me?

Mr. TALENT. I am sorry. Did you say "Mr. Talent"?

He hasn't spoken.

Chairman CUNNINGHAM. Oh, I am sorry.

Mr. TALENT. I thought something was missing. I was waiting, just reading your testimony.

Chairman CUNNINGHAM. The Chair apologizes.

Terry Van Allen, Ph.D., director of Research Administration, University of Houston-Clear Lake, Houston, Texas.

We were just testing you.

STATEMENT OF TERRY VAN ALLEN, PH.D., DIRECTOR OF RESEARCH ADMINISTRATION, UNIVERSITY OF HOUSTON-CLEAR LAKE, HOUSTON, TEXAS

Mr. VAN ALLEN. OK, thank you.

Chairman CUNNINGHAM. I apologize.

Mr. VAN ALLEN. Sure.

Well, thank you very much for inviting me. My name is Terry Van Allen. I am director of Research Initiatives at the University of Houston and Clear Lake. I am one of the few people in the country who has actually researched enterprise zones and the outcomes of enterprise zones, especially at the State level.

Let me say that I am very excited about this bill because I do find that States are being very successful when they do have substantial incentives. My testimony has much of the data that has been collected, and I will review short parts of it here.

My number one goal in being involved with enterprise zones is creating jobs and creating jobs for low-income and needy individuals. So that is where my heart lies.

Let me say that I feel that the best long-term answer to community renewal and economic growth is enterprise zones. My studies have shown that there are strong incentives that unemployment totals are being cut down and reduced at a rate of 38 percent over 12 years. So there are communities where this is working.

Again, I wrote a book on this. It is called The Impact of Enterprise Zones on Employment. I feel that this bill by Watts and Talent, again, is a very exciting and meaningful bill, and one of the key elements has to do with capital because capital is the life blood of job creation, business investment, and economic development.

In fact, most of these areas, one can term them as capital-deprived and capital-starved areas. So, again, I appreciate this bill, and I appreciate Dr. Porter's comments on how to enhance capital formation in this area because this is the only way we can unleash capital into these areas.

There has been much publicity, for instance, with Magic Johnson's movie theaters going into low-income areas. Well, with capital incentives and capital gains tax exemptions, Magic Johnson and a multitude of other investors will be investing in these areas, and they will find them to be extremely attractive.

Let me also say I am very interested in the local residents being economic stakeholders; they are stakeholders as businessowners, investors, and as employees in these businesses.

I find the current enterprise zone program to be rather weak. It mainly stresses social service grants, and it only makes a modest difference. In fact, the only way that the current program can make any difference at all is to combine it with a strong local and State program.

Let me quickly talk about some of the points in regards to my research. My research work dispels the myth that most of these new jobs go to residents outside of the designated low-income areas. It shows that residents in the indigent communities are directly benefited. Many of these jobs for low-income residents are good paying with good benefits.

In Portland, Oregon, the average entry level job pays $10 an hour with full benefits. Sixty-seven percent of these jobs went to zone residents, and 72 were formerly at the poverty level before being hired.

There are also other important studies that I have referenced in my work, and one is that the majority of these businesses have either expanded or been created within the zones. I think this is a big key to understanding enterprise zones.

Fifty-five to 66 percent of all business activity is by business expansion. Enterprise zones help businesses that currently exist there to expand. So many of them are on a shoestring, and this can help make a big difference.

The data also shows that 21 to 31 percent of the firms are new, and only 7 percent to 16 percent are from relocating. So we do not have a problem of a zero-sum gain where you are trying to steal somebody else's business from the outside. This program is to help increase the economic growth within the zone.

There are other misnomers, such as big businesses exploit the benefits. Whereas, the evidence shows that the vast majority is small business, and many of them are owned by local residents.

Many of the buildings in the area are boarded up, and many of the residents are on welfare. So there is not a huge loss of tax revenue because there is not a lot of tax revenue to begin with in these areas.

Let me just quickly say, since my time is running out, that I have studied 60 zones across the United States, and I find this bill is a promise of a new day. So I support this bill immensely, and I also support the one in the Senate by Abraham and Lieberman.

Thank you.

[The prepared statement follows:]

STATEMENT OF TERRY VAN ALLEN, PH.D.
DIRECTOR OF RESEARCH ADMINISTRATION
UNIVERSITY OF HOUSTON-CLEARLAKE
HOUSTON, TEXAS

July 30, 1996: Joint Hearing on "Saving Our Children: Renewing American Communities Act of 1996" (H.R. 3467)

The best long-term answer to community renewal and economic growth in low-income areas is **Enterprise Zones**. By reducing high tax burdens and heavy regulatory barriers, state Enterprise Zones are succeeding in creating good jobs and reducing unemployment in low-income areas. The average zone has reduced its unemployment rate by "one-fourth" in three years after designation. Throughout the country, those state zones that have "strong" economic incentives are cutting at least **38%** off of their overall unemployment totals over twelve years. These facts are well-documented in my research book, *The Impact of Enterprise Zones on Employment.*

Now, low-income areas (and their residents) have been given a valid reason for greater hope and opportunity. These localities can *far exceed* the positive impacts of successful state zones with the provisions of the federal bill by congressmen J.C.Watts (R-OK) and James Talent (R-MO), if it were to become law. This dynamic bill is entitled, the "Renewing American Communities Act of 1996" (H.R. 3467). One key element of this bill is the *capital gains* tax exemptions, as capital is the *lifeblood* of job creation, business investment, and economic development. Capital gains tax exemptions for owners and investors would *unleash* huge amounts of investment into and within these "capital-deprived" or "capital-starved" areas. There is *no other way to effectively* unleash venture capital into and within urban and rural blighted areas, except through capital gains tax exemptions.

For instance, there has been much publicity with basketball legend Ervin "Magic" Johnson's theater enterprises. With capital gains tax exemptions, Magic Johnson and a multitude of other entrepreneurs in all industries will eagerly find that investing into more of these low-income areas to be *very attractive*. These capital gains incentives will reduce risks and increase marginal profits for business owners and investors, plus create good jobs and increase wages for employees. All sectors of the local economy will *flourish* and the community will benefit greatly. Most importantly, zone residents will have more and more opportunities to become economic *stakeholders*--as business owners, investors, and employees.

Other business and job development provisions of the bill are greater *expensing* tax credits for capital equipment, *income* tax credits for new hires who are getting off of public welfare, and *regulatory* relief. Additional incentives for facilitating individual and community empowerment were demanded by low-income citizens throughout the nation who were asked in focus groups as to what they wanted for their communities. These include educational scholarships (school choice) for children of low-income residents, tax incentives for charitable giving to organizations that primarily serve low-income residents, and funding for drug counseling and treatment centers (including religious-based organizations) that successfully help low-income residents.

The current federal Empowerment Zone program is rather weak with meager incentives for economic development, and puts much of its effort into social service community grants. The program is largely dependent upon local initiatives to put together special deals with businesses to produce any results. At best, the federal program provides supplemental support and only makes a modest difference on the margins.

The wonderful thing about the Watts-Talent bill, as well as the Senate Bill (S. 1252)

by Spencer Abraham (R-MI) and Joseph Lieberman (D-CT), is that *strong* incentives are provided for businesses across-the-board. No special public-private packaged deals will be made for specific businesses, which often are counterproductive to policy goals. The strong economic incentives in these bills will open up the *floodgates* of entrepreneurial initiative and investment.

In a recent Empowerment Zone teleconference sponsored by HUD, Assistant Secretary Andrew Cuomo talked about the urgent need for improved performance, but he then emphasized the process for "making the deal" to attract businesses. Mr. Cuomo is well-meaning but mistaken about deal-making as being the cure, although I appreciate the fact that he is trying to make the best out of the current legislated configuration. Again, with *strong economic incentives*, no one has to worry about finagling special deals. The worry will be between competing businesses, as to which ones will succeed in capturing an ever-expanding market. This healthy competition between businesses to produce goods and services demanded by the marketplace will be ongoing and dynamic. Government's role is to be an encouraging facilitator and a fair referee, and not to be a kingpin or deal-maker.

The Watts-Talent bill does something vitally important that the Senate bill does not do, which is to open up the *opportunity for new zones* to be designated. The Abraham-Lieberman bill is an excellent piece of legislation with comparable economic incentives, but it applies only to the existing 100 or so Empowerment Zones and Communities. (In the existing program, only about nine Empowerment Zones have any meaningful incentives and these are rather modest. The remaining Empowerment Communities essentially have no meaningful incentives. There are also two Supplemental Zones and four Enhanced Communities with very modest incentives. However, the Watts-Talent bill repeals the existing program and provides for up to 100 new designations, but includes the nine Empowerment Zones for two years before they must submit for renewed designation. Thus, all needy localities in the congressional districts across America will have an opportunity to seek a possible designation. Future amendments could provide for even more designations.

My research work *dispels the myth* that most of the new jobs go to residents outside of the designated low-income areas. It shows that residents in the indigent communities are directly benefitted with significant increases in employment. Many of these jobs for low-income residents are "good paying with good benefits," as can be cited in the designated area in Portland, Oregon, where the average new *entry level* job has paid $10 an hour along with full benefits (health care, retirement, sick leave, and vacation). Sixty-seven percent of these *entry level* jobs went to zone residents and seventy-two percent of the new hires were at the poverty level.

There are other important studies that are referenced in my work that dispel other myths, such as the misnomer that most businesses relocate to the Enterprise Zones from other communities, whereas the evidence shows that the vast majority of businesses have either been expanded or newly-created from "within" the designated communities. The evidence shows that between 55-66% of the activity is by business *expansion* within the zones; between 21-31% of the activity is by *newly created* firms within the zones; and between 7-16% of the activity is by businesses *relocating* from outside of the zones. Thus, the evidence shows that there is an "ever-expanding or growing" economy with Enterprise Zones, and not a zero-sum equation where one community wins while another loses.

When it is realized that the *key* to economic development is from *expansion* and *creation* within the zones, especially through *capital formation*, then public bureaucrats, committees, and boards will no longer be the focus for making deals with *outside* private firms. At the HUD teleconference previously mentioned, Vice President Al Gore spoke about the goal to attract relocating businesses from the outside into the zones. Mr. Gore is also well-meaning but mistaken about the zero-sum economic cure being primary instead of

secondary, and I do appreciate the fact that he is trying to make the best out of the current legislated configuration. Thus, the first step in turning our policies around, is to educate our policy-makers on the successful results of business expansion and creation.

Another misnomer is that large corporations or big businesses exploit Enterprise Zones, whereas the facts show that the vast majority of participating businesses are *small* entrepreneurial firms, many of which are owned by *local* residents. Another misnomer is that there are high costs in providing tax incentives, whereas poverty areas already generate low tax revenues from boarded-up buildings and high welfare costs from the unemployed, so the benefits *far outweigh* the costs. Another misnomer is that tax incentives should only be given to individuals to increase employment, whereas most of these jobs are created when businesses get the reduction in onerous tax burdens to cut costs and increase production (including labor).

My national study of 60 *state* Enterprise Zones with *state-mandated* incentives shows that property tax abatements have the *greatest impact* on reducing unemployment. This impact is due to the fact that this incentive, more so than any other incentive, has a *greater dollar value* for businesses--especially small and medium-size businesses. The next important incentive was income tax credits for businesses, but it was not as strong as property tax abatements, since many small firms do not make profits in the first few years of operation or have little income to report. Property tax abatements help to immediately cut down on costs, which utilizes investment capital for increased production; whereas income tax credits have an impact, but not as great of an impact as property tax abatements. This is why federal capital gains tax exemptions are so *vital* for investment, since they would have an *immediate* and *enormous* impact, and a *greater* impact than the state incentives.

I also found that the zones with the greatest reduction in unemployment had a large amount of incentives, instead of a small amount of incentives. As a result, having a good incentive program was essential for small to medium-size businesses to *help offset* the large costs of *training* new hires and zone residents with limited job skills, and the costs of processing and filing *administrative* applications.

Based on my studies, there is one recommendation that I would make to improve the Watts-Talent bill (besides amending the bill in the future to increase the number of designations), that is, to encourage the local entities to implement a *formal* job bank specifically for their zones. This job bank should be primarily made up of private outreach organizations, and consist of referrals for job openings and training opportunities within the zone. There is a successful network in place in Portland, Oregon. The job bank is *facilitated* by the Portland Development Commission and it has over 200 private affiliates along with a few public agencies, such as the community colleges. This insures that zone residents will be included in the program.

Enterprise Zones provide hope and opportunity to low-income communities, and have *not* yet reached their enormous potential, due to mediocre federal incentives. If the U.S. congress is *serious* about reversing urban and rural poverty, then providing strong economic incentives, along with social empowerment, is the answer. Unless the current federal program is *changed*, most of the federal Empowerment or Enterprise Zones will *flounder indefinitely*. The Watts-Talent bill is the *promise for a new day*. Many Democrats and Republicans are ready to target capital gains tax exemptions, as well as other investment and empowerment incentives, into desperately blighted areas. Those legislators and community leaders who have the courage and foresight to lead this revolution will be the heroes in making the American Dream a possibility for everyone. If a new, *substantive* bill is passed and implemented at the federal level, which can be *unobtrusively* combined with state and local incentives, then **Enterprise Zones will shine as the greatest economic success story of community renewal in American history**.

Chairman CUNNINGHAM. Thank you.

Mr. Talent.

Mr. TALENT. I thank you for this very interesting discussion. I thank you all for sticking around. I am sorry that more Members are not present. There are many reasons for that.

This hearing is very important and the first of its kind on a bill as comprehensive as this. This is the first opportunity we have really had to discuss a very important section of the bill, the economic development side of it.

If you wouldn't mind, and Mr. Van Allen talked about this as well, we have a difference of opinion here, and I wonder if Mr. Porter or Mr. Butler would now address the four objections that Professor Ladd had, and then I would be happy for you to have an opportunity to get a rejoinder. I don't want this to be the McLaughlin Group or anything like that.

The four points she mentioned that tax breaks may simply go to businesses which would have located there, anyway; second, that there is no guarantee that jobs will be given to local residents. Professor Ladd thinks that encouraging capital investment may discourage labor-intensive businesses which works against employment in the area. Then, also, to the extent that it does cause firms to move, it may cause them to move from one area to another rather than generating new jobs.

Would you all like to comment on those points?

Mr. BUTLER. Maybe I can take a crack at it first. A number of those points were addressed in Dr. Van Allen's comments in terms of just looking at what actually happens in these areas.

Let me just start, though, in terms of answering your question and draw a distinction between the British objective and experience of what has happened in this country. The approach in Britain, which was launched in the early eighties, was really designed at vacant sites. It was designed at literally vacant sites or areas of very low population, very depressed areas, like the east end of London, for example, and in that strategy, the objective was to turn around and, in a sense, to create an industrial park within these cities.

The approach in this country has been very different, and the approach embodied in this legislation is very different, which is why so many of the other elements are so crucial to it and are very different from the whole approach in Britain.

As for some of the other specific points, it is necessary to have legislation with incentives that look at both the development of capital and the accumulation of capital and reduce the cost of hiring people. This legislation does both of those, and it corrects the imbalance in previous approaches and in existing enterprise zones, which have focused too much on the notion that people will hire if you just reduce the cost of labor. It is an old proverb that nobody goes into business to hire anybody. They go into business to make money.

It is very important to have these capital provisions that encourage people to start up businesses, to complement the other provisions that reduce the cost of hiring. So when you look at what has actually happened in practice, and when you look at the combina-

tion of approaches in this bill, it addresses those kinds of objections.

The last point I would like to make is that to have an educated work force, and employment-prepared work force is, of course, crucial, which is exactly why the other provisions in the legislation dealing with education, with drug problems, and so on are exactly what is needed to deal with the difficulty of recruiting people.

Mr. TALENT. Dr. Porter, did you want to make any comments?

Mr. PORTER. I had a little bit of trouble conjuring up what in the world Dr. Ladd was talking about.

I have actually talked to several hundred businesses based in inner cities. Thousands of such business already exist.

Many have an image of the inner city as an economic wasteland, with no businesses and no people able to work. It is false. There are many businesses there, and the problem is how to build on this base and help those businesses expand. They can't expand because they can't find industrial sites. They can't expand because they can't get permits.

There are many, many large retailers in America wanting now to establish locations in inner cities because the suburbs are saturated. However, they can't get permission.

The question is how to get more capital flowing and more business activity taking place. So, while I understand the concerns, I have trouble seeing them as compelling arguments against the idea represented in this bill.

I would support a condition for obtaining the tax incentives requiring some minimum percentage of local residents employed because I agree with Dr. Ladd that there is not necessarily a link between the business located in the area and employees located in the area.

In retailing and in services there tends to be a link, but in manufacturing, the link is weaker. A way of strengthening that link would be a useful addition to the bill if it could be added without creating unnecessary complexities.

My view is that the cost of this bill is going to be minuscule compared to the cost of a typical enterprise zone bill, which has massive tax relief and all kinds of subsidies.

Given this bill's concept of a capital gains exclusion, the higher the cost of the bill, the more money the Nation will save in the long run because of the economic activity, the jobs and the property tax revenues that will be created by businesses located in these areas.

Mr. TALENT. Mr. Chairman, could I ask that Professor Ladd have the opportunity to respond?

Chairman CUNNINGHAM. Absolutely. What I was going to do is take back the gentleman's time, and no one controls the Chairman's time and I was going to yield to Ms. Ladd.

Mr. TALENT. I thank the Chairman, and I am sorry that I went on too long.

Chairman CUNNINGHAM. I saw that she wanted to comment, and nobody can control my time. So I was going to yield to the gentlelady to respond. I think that is only fair, Dr. Ladd.

Ms. LADD. I just have a few comments. I, too, have spent a lot of time looking at the State enterprise zone programs. I am an aca-

demic, and the way I have looked at most of them is by considering the academic studies that have been done of these enterprise zones.

I would like to emphasize that there are a number of methodological challenges for any person trying to figure out how effective the enterprise zones are. You have to figure out what would have happened in the absence of the enterprise zone strategy, and then figure out what percentage of the jobs went to local residents and that can sometimes be difficult. So the studies differ in their methodological sophistication, and that may lead to some of the differences.

I must admit, though, I am not familiar with Dr. Allen's work, and I would question some of his conclusions.

Let me just give you a couple of counter examples. Indiana is a State with an extensive State enterprise zone strategy, and lots of people refer to Indiana as a State that has a successful enterprise zone program.

One of the interesting things about the Indiana program is that one of its big tax breaks is a 100-percent exclusion from the inventory tax. As a result of that provision, a lot of the firms that have moved into the enterprise zones are warehouses, which have lots of inventory.

Now, I don't think that is the type of business activity that Mr. Butler or any other supporter of enterprise zones has in mind, when they think about community renewal. There are lots of other examples like that.

People cite the New Jersey experience with enterprise zones as a positive experience. That interpretation is problematic because the period which most people study was a period of dramatic growth of jobs in New Jersey. The challenge there is to sort out what would have happened in the absence of the enterprise zones.

I have a brief comment on one thing that Dr. Porter said. That has to do with whether venture capitalists are likely to respond. He implied that venture capitalists weren't likely to come in. I don't understand that sort of logic. If you do away with a tax on capital gains in these areas, I don't understand why venture capitalists are not going to find the area attractive and why they aren't going to be the beneficiaries rather than the local residents who you are trying to help.

Finally, I just want to emphasize the point that I made at the end of my initial remarks. I am not against geographically targeted programs. I would like them to be focused more on helping to increase the opportunities for the local disadvantaged residents. That may mean providing tax breaks for firms to hire labor in addition to expanding training programs. I believe the additional training and education for the local work force and opportunities to link them more closely with the labor market are an essential part of any program of this type.

Chairman CUNNINGHAM. Mr. English, did you have a question?

Mr. ENGLISH. Thank you, Mr. Chairman. Actually, I have a series of them.

I want to compliment the panel on the expertise that you are bringing to this examination of what is, after all, a piece of legislation that demands this sort of survey that requires, really, a multi-

disciplinary approach. It has been very difficult for us in this hearing today to get our arms around how many of these issues.

First of all, Dr. Ladd, in talking about State experiences, you have used some examples, including Maryland, which has an enterprise zone program base, just on a sales tax preference. It has never worked very well, and I would argue it is not a very good model for what might come out of this legislation.

Can you generalize on whether you feel, given the impact of changes in the Federal Tax Code versus very different tax structures at the State level, that it is fair to say that the State programs are not really strong enough to give us any sort of predictor of what would happen with a Federal enterprise zone program?

Ms. LADD. I understand the point you are getting at, and it is an interesting one since the States were all very hopeful during the eighties that the Federal Government would come along with a major enterprise zone program that would enhance the State efforts.

Mr. ENGLISH. If I may interject, I think that many of the programs that I know—Pennsylvania's program was modeled on the idea that Congress would ultimately pass enterprise zone legislation, and this was an attempt to essentially position the States to receive those tax benefits.

Ms. LADD. Yes. I think the notion there was with the corporate income taxes and various other taxes at the Federal level that those tax breaks would be more powerful than some of the breaks that the State and local governments could give.

I would emphasize, though, that most of the State programs do give some sort of property tax relief, and property taxes are heavy taxes at the local level and can impose heavy tax burdens on business.

Mr. ENGLISH. Sure.

Ms. LADD. It is hard to say what the effects of a Federal program would be. It would vary with the specific tax relief provisions.

Mr. ENGLISH. Dr. Ladd, in your testimony, you also mentioned that undesirable side effects of certain locations, such as high-crime rates, would be a serious deterrent for development. This legislation attempts to address that by creating an infrastructure that stabilizes neighborhoods and in a nonbureaucratic way gets at some of these core problems that affect locational decisions, like encouraging investment in locally based charities, like encouraging investment back in neighborhoods. Do you think that will actually strengthen the economic appeal of enterprise zones?

Ms. LADD. That is a hard question for me to answer because I am not sure I agree fully with the premise that those sorts of programs will succeed in improving those neighborhoods as much as you would like them to do, although I, like you, would like to strengthen those local communities.

If they are as successful as you think they are going to be, then it is not clear to me that you need the tax breaks on top. To follow the logic of the people from the Harvard Business School and other economists, that we don't want to interfere with the efficient location decisions of firms, and so if you can develop those communities and get rid of some of these problems that lead to externalities and may keep firms out, you might not need the tax incentives.

Mr. ENGLISH. Dr. Porter, you have also referenced security as one of the reasons why firms make certain locational decisions. Do you believe that the provisions in this bill will stabilize neighborhoods and actually make them more attractive so that combined with the tax breaks there is going to be a much better prospective of encouraging growth and opportunity and job creation in some of these neighborhoods?

Mr. PORTER. I believe the provisions in the bill are likely to move in the direction of creating a better business environment as well as creating an environment in which there is better public safety.

I would stress that we have to see the choice facing a firm holistically, and we have to recognize that right now we deal with both the reality and the perception that inner cities are not favorable places in which to locate business.

Until such time as those perceptions change, there will be the need for some kind of an extra incentive. But, at the same time, we are going to have to improve the environment itself, so that businesses as successful as this start to grow and develop or try to expand in these areas. Ultimately, if businesses in inner cities are not profitable, they won't survive. They won't stay.

The thing I like about this bill is it tries to deal with both incentives to prime the investment pump, if you will, but also tries to improve the environment for business.

Mr. ENGLISH. Mr. Chairman, my time has expired. I have a few more questions if the opportunity presents itself after others have asked questions.

Chairman CUNNINGHAM. I thank the gentleman, and I will make just a couple of statements, and then I will yield additional time, and hopefully, Mr. Kemp—I have heard Jack speak before on enterprise zones.

What I would tell Dr. Ladd is that my background—I flew fighters for 20 years, but before that, I was a teacher and a coach. Two of my kids won Gold and Silvers in the Olympics. So I have got an education background. My bachelor's and master's degrees are in business and education.

That all kind of went out the window when I met an African-American from Dallas-Forth Worth on an airplane, a very bright guy, very much a Democrat, but he told me—he said, "Duke, the cities, the inner cities like Watts and Harlem and others used to be very proud," and he said at that time they mainly had large businesses within the districts or in the community itself.

I understand your concern about small business, but anywhere with small business, it is very difficult, especially in the State of California, to get started with all of the rules and regulations. I mean, it is unbelievable, the forms, the permits.

Listen to Sonny Bono's story sometime about the time he tried to start a restaurant in his area.

It is difficult, and I truly believe that the economic model toward the inner city is the only way that we are going to turn that back around.

He told me, though, that unfortunately after the welfare system started, those areas started declining. The businesses went out of the area. The crime was very high. Businessowners didn't want to

stay where crime was high or where their employees were getting hassled.

I live in Northeast Washington right now. I walk down the street saying, "I'm bad, I'm bad," and it is a pretty tough area, but do you know on every street corner there is a mom-and-pop's? I will bet there is a grocery store on every street corner. There is a pizza shop, very bad pizza I had last night for the first time. There are gas stations.

I look at Los Angeles just last year when they burned a lot of those small businesses down in some pretty tough areas. How much State revenue were those small businesses bringing in, and how much Federal revenue? Zero because they were burned down.

Governor Wilson went in and established some pretty stringent rules on enterprise-type zones and tax breaks for those particular areas to stimulate them, and now there are people working in those areas. They are small business. Not all of them made it, but not all of them make it in a rural area as well, but I think we have got to do something.

I don't know if enterprise zones is the right way or what the capitalization is. I am very appreciative of today. This panel has been very nonpartisan. It has been on the facts and basics, just difference of agreement, but I have learned a lot.

If you can't put the economics and invest in small business, into an area, I don't know how we are going to get there because a lot of times people don't even qualify for an entry level job.

In my block, I watched a lady mending a bicycle yesterday. I went over and helped her. She did it better than I did, but the children that I see there, they don't have a whole lot of hope in the District of Columbia system, and unless we change that, that delta, that difference between those that are successful and those that are poor, I think you would agree that education, welfare reform, jobs associated, all of those have got an integral part in what all of us are trying to do, change the system.

I don't know what the magic formula is, and I think that is why we have these hearings. I truly believe that the only way we can do it is to improve education, more dollars like you want, but not through the Federal Government. The Federal Government is wasting those dollars and cutting education because it is not focusing the dollars down to the classroom. That is what we are trying to do, and cut a lot of the rules and regulations and empower the States, instead of Members of Congress that get themselves reelected all the time by having to spend here in River City, but I want to thank the panel.

Without having you respond, it really is a concern, I think, by both sides of the aisle. There are politics involved on both sides of the aisle, unfortunately, in this thing. It shouldn't be that way. It should be bipartisan because it benefits all of us.

I would yield to Mr. English to ask his questions.

Mr. ENGLISH. Thank you, Mr. Chairman.

Dr. Porter, going back to some of the things you had covered in your testimony, you have made a fairly eloquent argument for the need for perhaps a tax incentive for dividend income for enterprise zone entities. You say that would be a more effective tax preference

than the one contained in this bill for expensing for small businesses.

On the second point, can you elaborate on why you think that expensing provision would not be an effective use of our limited tax resources?

Mr. PORTER. Let us talk about what expensing means. Expensing means when you buy an asset rather than having to depreciate it over its life, you can write it all off up front. Instead of reporting income and paying taxes on it, you can essentially shelter the income.

In contrast, a dividend exclusion means that if a business is profitable, it can pay a dividend to its shareholders who will not be taxed on that dividend. So they will earn, given normal tax rates, almost twice as much return.

Mr. ENGLISH. Sure.

Mr. PORTER. I favor the economic incentives of the second approach versus the first approach. The first approach is one in which companies may buy assets or behave in ways that are only rational because of the tax benefit. Whereas, in the second case, the incentive required a profitable business.

I believe, in general, we ought to make sure that all incentives presuppose profit. It is counterproductive to create businesses that are not viable, just like we did not want to create housing projects that were not viable. This does more harm than good. That was the point I was trying to make.

Mr. ENGLISH. That is a point well taken.

Dr. Butler, do you want to comment on that argument?

Mr. BUTLER. Yes. I wouldn't really agree with that, although in a sense, now we are talking about fine-tuning the incentives, and there is a lot of uncertainty about how some of these things would occur. Very often we are talking about the kind of business that is almost certainly not going to be making a profit in its early years, which is a very typical situation in small business anyway, but particularly in these areas.

A lot can be said for an incentive that encourages somebody to be able to put money into a firm and to get a real benefit up front as well as a benefit if the business appreciates in value, which is what a capital gains tax deduction or exemption allows you to have.

So I can see the point being made, but on the other hand, if you look at the real world in terms of the kinds of businesses that we really are talking about, I believe that the expensing will be an important incentive and will allow a real return to an investor during a period when there normally is not going to be a return, when profits are not being made, which is a normal situation that we expect in an ultimately successful business in these areas.

Mr. ENGLISH. Let me ask one more question, then, very briefly.

Dr. Butler, you have also heard Dr. Ladd's argument that by creating an expensing provision, you are creating an incentive for a displacement of low-skilled jobs within those companies and that that is somehow mutually exclusive. Would you comment on whether you think that argument is how firms would operate in an enterprise zone context?

Mr. BUTLER. No. When you look at what happens when a firm begins and operates, it is a combination of factors of production. It is the cost of doing business related to the real estate involved, which primarily, should be addressed at the local level in terms of cost and permits and so forth.

It is a question of having working capital to hire people, which is addressed in the provisions of the bill, and it involves providing people with the tools and equipment that they need not only to make the business viable, but to make the employees themselves productive, which in turn is important in helping them to achieve wages in line with their level of productivity.

So that an incentive to encourage capital to be put into these businesses and tools to be obtained and so on is a necessary agreement for the benefit of the employees, as well as the benefit of the employer.

Mr. ENGLISH. Thank you.

Mr. Chairman, I appreciate the opportunity to ask those additional questions, and I thank the panel for your wonderful testimony.

Chairman CUNNINGHAM. I do, too. I wish for this particular panel that I had more time. Unfortunately, I have a tuna/dolphin bill coming up, and I have to attend to that.

I want to thank you, and I appreciate it. I still don't know what all the right answers are. From both sides of the aisles, I have concerns about small business, as I said as well, but I also think we have to empower people to at least have the opportunity to survive, and I think incentives economically are the best direction to go.

Thank you, and I declare this hearing adjourned.

[Whereupon, at 3:04 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF DANIEL E. KATZ
LEGAL COUNSEL
ON BEHALF OF AMERICAN CIVIL LIBERTIES UNION

The American Civil Liberties Union (ACLU) appreciates the opportunity to provide this testimony. The ACLU is a private, nonprofit organization of more than 275,000 members, dedicated to the preservation of civil liberties enshrined in the Constitution's Bill of Rights. The ACLU believes that H.R. 3467, "The American Community Renewal Act" violates both the First Amendment's religion and speech clauses.

Three sections of the Community Renewal Act present these constitutional problems. The substance abuse treatment section of the bill would violate the religious liberty rights of those seeking treatment, and would violate the Establishment Clause's prohibition on government funding and oversight of pervasively sectarian institutions. The "scholarship," or school voucher, program in the bill would also violate the Establishment Clause of the First Amendment. Finally, provisions in the tax credit scheme would chill the free expressive rights of charities that serve people in low income communities.

The Substance Abuse Title of the Legislation

The title of the legislation called "Prevention and Treatment of Substance Abuse," (hereinafter "Substance Abuse provisions") would force states, under threat of lawsuit, to grant funding awards to "pervasively sectarian" institutions, such as houses of worship. The provisions would also allow religious institutions to grant "subawards" of taxpayer funds to other religious entities. This is a serious departure from current law, under which *religiously affiliated* organizations are permitted to provide government-funded services in a *secular manner*. Although the Supreme Court has ruled that "religiously affiliated" organizations, such as Catholic Charities, are not *per se* prohibited from receiving government grants for social work, the Court has not permitted government funding of institutions that are "pervasively sectarian" because it would violate the Establishment Clause.[1]

Furthermore, many state constitutions prohibit such funding, and the Substance Abuse section explicitly preempts state constitutional provisions that are designed to prohibit the government from entangling itself in the affairs of religious institutions. The legislation contains a preemption section[2] that would override many state constitutional provisions that prohibit taxpayer funds from being diverted to religious institutions.[3] This section would also require individual religious institutions to segregate federal and state

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[1] *See Bowen v. Kendrick*, 487 U.S. 589, 612 (1988). In *Bowen*, the Court explained that "[o]nly in the context of aid to 'pervasively sectarian' institutions have we invalidated an aid program on the grounds that there was a 'substantial' risk that aid to these religious institutions would knowingly or unknowingly, result in indoctrination." *Id.* In various cases, the Court listed among the factors to be used to determine if an institution is "pervasively sectarian": 1) location near a house of worship; 2) an abundance of religious symbols on the premises; 3) religious discrimination in the institution's hiring practices; 4) the presence of religious activities; and 5) the purposeful articulation of a religious mission. *See Wolman v. Walter*, 433 U.S. 229, 234 (1977); *Grand Rapids School District v. Ball*, 473 U.S. 373, 384 n.6 (1985); *Hunt v. McNair*, 413 U.S. 734, 743 (1973); *Roemer v. Maryland Public Works Board*, 426 U.S. 736, 755 (1976).

The Substance Abuse provisions would: 1) permit the provision of government-funded substance abuse services *in*, not merely *near*, a house of worship; 2) explicitly grant a *right* to religious providers to display religious "art, icons, scripture" and "other symbols" in any abundance in areas where substance abuse services are provided; 3) allow religious substance abuse providers to discriminate in all aspects of employment, including the *off-the-job* conduct of employees. Additionally, The Substance Abuse provisions would actually allow religious providers to *require* beneficiaries to engage in religious worship, regardless of the religious beliefs of the beneficiary. The religious provider would also be permitted to require the beneficiary to follow *off-site* rules of religious behavior.

[2] H.R. 3467, Title III Sec. 301, amending 42 U.S.C. 290aa et seq., Sec. 584 (b), (104th Cong.) (1996).

[3] One example of such a constitutional provision can be found in the Constitution of the State of Missouri: "no money shall ever be taken from the public treasury, directly or indirectly, in aid of any church, sect or denomination of religion, or in aid of any priest, preacher, minister or teacher thereof, ..." MISSOURI CONSTITUTION, Article 1, Section 7. *See also e.g.* CALIFORNIA CONSTITUTION, Article XVI, Section 3 and Article XVI, Section 5; FLORIDA CONSTITUTION, Article I, Section 3; ILLINOIS CONSTITUTION, Article X, Section 3; INDIANA CONSTITUTION, Article 1, Section 6; MICHIGAN CONSTITUTION, Article I, Section 4 ; PENNSYLVANIA CONSTITUTION, Article III, Section 29; TEXAS CONSTITUTION, Article I, Section 7.

funds if the religious institution resides in a state in which the state constitution prohibits the diversion of state funds to religious institutions. Aside from this section's obvious states' rights problem, the requirement that religious institutions segregate certain funds in order to get around state law violates the First Amendment by excessively entangling the government in the "details of administration" of religious institutions.[4]

The Substance Abuse provisions would leave states with a "Hobson's Choice" in deciding whether or not to fund particular religious institutions. If a state abides by its state constitution and the federal Establishment Clause and declines to fund particular religious institution because it is "pervasively sectarian," then the state will be sued by the religious institution for "discrimination" under the Substance Abuse provisions. On the other hand, if the state funds the institution, it will face lawsuits for violating the federal, and possibly state, constitution. Either way, the provisions create a litigation nightmare for state governments and attorneys general.

The Substance Abuse provisions would also egregiously violate the First Amendment religious liberty rights of people seeking treatment. The provisions explicitly allow a taxpayer-funded religious substance abuse program to *require* beneficiaries "to actively participate in religious practice, worship, and instruction" and to follow off-site rules of religious behavior.[5] Such a requirement would obviously violate the religious liberty rights of many beneficiaries seeking substance abuse treatment, especially those whose religions are different from that of the provider.[6] This requirement is a direct affront to individual religious liberty, as it would authorize the use of taxpayer funds to directly coerce government beneficiaries to practice certain religious beliefs.

The Supreme Court has made it clear that such a scheme would be unconstitutional, as the Establishment Clause of the First Amendment "absolutely prohibits government-financed or government-sponsored indoctrination into the beliefs of a particular religious faith."[7] The Court has explained that "[i]t is beyond dispute that, at a minimum, the Constitution guarantees that government may not coerce anyone to support or participate in religion or its exercise..."[8] In order to comply with the Establishment Clause, the Court has stated that government grants to religious institutions must be limited to "secular, neutral, and nonideological purposes."[9]

The provisions would further deteriorate states' rights by overriding state educational and licensing standards for substance abuse counselors and forcing states to include religious practice as a critical element in substance abuse treatment. The "Education Requirements for Personnel in Drug Treatment" section of the title would preempt state educational qualification standards for substance abuse treatment, and order states and local governments to "treat religious education and training of personnel as having a critical and positive role in the delivery of program services."[10] The section would also direct state and

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[4] *Lemon v. Kurtzman*, 403 U.S. 602, 615 (1971).

[5] H.R. 3467, Title III Sec. 301, amending 42 U.S.C. 290aa et seq., Sec. 582 (g)(2), (104th Cong.) (1996).

[6] Supporters of the legislation will likely point to language that states that the beneficiary must have "elected" to receive services from a religious provider "in accordance with subsection (e)" before the beneficiary could be forced to engage in worship. However, an examination of subsection (e) reveals that no election mechanism exists. Rather, a beneficiary only has a right to "object" to religious providers in general, although the beneficiary is not given any *notice* of that right to object. Thus, it specious to argue that this generic right to object, of which a beneficiary is never informed, constitutes an affirmative election to receive substance abuse treatment by a religious provider. Furthermore, it is fundamentally unfair (as well as unconstitutional) to force a beneficiary, who may not have objected to a religious provider in general, to worship a deity or practice a religion which differs from his or her own personal beliefs.

[7] *Grand Rapids*, 473 U.S. at 385.

[8] *Lee v. Weisman*, 112 S.Ct. 2649, 2655 (1992).

[9] *Committee for Public Education v. Nyquist*, 413 U.S. 756, 780 (1973).

[10] H.R. 3467, Title III Sec. 301, amending 42 U.S.C. 290aa et seq., Sec. 585 (1), (104th Cong.) (1996).

local governments to change their education requirements to "give credit for religious education and training equivalent to credit given for secular course work in drug treatment or any other secular subject that is of similar grade level or duration."[11] This section of the legislation dictates federal criteria a state *must* adapt in their educational and certification standards, thereby overriding the state's carefully crafted personnel requirements for substance abuse professionals. This federal mandate to modify state certification standards also raises serious Establishment Clause concerns by inappropriately advancing religion.[12]

The Substance Abuse provisions would allow a religious substance abuse treatment provider to engage in religious discrimination against employees who are being paid with taxpayer funds. The inappropriately-titled "Nondiscrimination in Employment" section of the Substance Abuse provisions would allow religious organizations to require that employees paid with government dollars adhere to the "religious tenets and teachings of" the religious institution.[13] This would permit a religious organization not only to exclude non-believers from government-funded employment, but also to advance religious doctrines with taxpayer money. Although religious organizations are currently granted an exemption from the prohibition on religious discrimination in hiring in Title VII of the federal civil rights law, this exemption should not extend to employees who are hired to work on, and are paid through, government-funded programs.

State governments would be powerless to ensure that its citizens are not subject to proselytization by religious substance abuse treatment providers. Aside from not allowing states to enforce their own constitution, the Substance Abuse provisions contain other measures that limit a state's ability to protect the religious liberty rights of its citizens. The legislation explicitly prevents states from guaranteeing that taxpayer-funded substance abuse services be provided in an environment without an undue amount of "religious art, icons, scripture, or other symbols."[14] As explained above, the provisions would also allow religious providers to force beneficiaries seeking substance abuse treatment to participate in the institution's form of religious worship, regardless of the beneficiaries' personal beliefs.

The Substance Abuse provisions explicitly call for federal government audits of participating religious institutions. As in the case of any private group that receives direct government benefits, the provisions require religious institutions to undergo a Federal financial audit.[15] Such excessive entanglement into the affairs of a "pervasively sectarian" religious institution by the government would violate the Constitution,[16] and would, for the first time, invite "Big Government" into the internal books of our nation's churches.

The Substance Abuse provisions also lack adequate protection for the religious liberty rights of those seeking substance abuse treatment through the Community Renewal program. As explained above, beneficiaries would be subject to forced worship and proselytization, and state and local governments would be powerless to intervene. This, of course, would lead to innumerable violations of religious freedom and conscience of beneficiaries who seek substance abuse treatment in their "renewal" community. Despite these obvious problems, the legislation does not provide for notice to be provided to beneficiaries informing them of their right to object to a religious provider.[17] Even more

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[11] *Id.*

[12] *See Lemon*, 403 U.S. at 612.

[13] H.R. 3467, Title III Sec. 301, amending 42 U.S.C. 290aa et seq., Sec. 582 (f)(2)(A), (104th Cong.) (1996).

[14] *Id.* at Sec. 582 (d)(2)(B).

[15] *Id.* at Sec. 582 (h).

[16] *See Lemon*, 403 U.S. at 613-15.

[17] *See* H.R. 3467, Title III Sec. 301, amending 42 U.S.C. 290aa et seq., Sec. 582 (e), (104th Cong.) (1996).

problematic is the legislation's treatment of the failure to object as an affirmative election for religious-based treatment.[18]

Additionally, even if a beneficiary objects to a religious provider, the Substance Abuse provisions do not require that an alternative provider be set up within a specific time framework and there is no requirement that the alternative provider has to be as equally accessible to the beneficiary as the original provider. The alternative provider could be set up across the state from where the beneficiary lives.

School Vouchers

Under the school vouchers title of the bill, all renewal communities would be required to set up a school voucher scheme, deceptively deemed "scholarships" in the legislation. These taxpayer-funded vouchers could be used for tuition at private and religious schools.

The "community renewal" school voucher scheme would undermine public education and violate the Constitution's Establishment Clause, which prohibits the use of taxpayer dollars to fund elementary and secondary parochial education.[19] Furthermore, the Supreme Court has held that this prohibition still holds even if the funds are provided to the parents as a reimbursement rather than a direct payment to the schools.[20]

Additionally, the only "school choice" that may be exercised under the "Community Renewal" bill is a private school's ability to choose the students they will admit. The bill makes clear that a student holding a voucher would not be guaranteed admission to any "scholarship" school. In fact, the bill would allow students who are *currently* in private school to receive vouchers. The voucher provisions would inevitably divert resources away from the public schools – the only schools that welcome *all* students in a community

The Tax Credit Scheme would Chill the Free Expressive Rights of Charities

Title II of the bill contains a dangerous provision that is designed to chill the political expression and activities of charities. This provision, similar in spirit to the Istook "Silence America" provisions, would affect the ability of individuals to receive a tax credit for contributions to charities in "renewal communities."

The bill would allow for individual tax credits for donations to "qualified charities" that aid low-income people in "renewal communities" – with some major exceptions. A charity would not be eligible for the tax credit if it engages in voter registration, political organizing, public policy advocacy or research, or litigation on behalf of the poor. This would force a charity to forgo constitutionally-protected political activity in order to attract contributions through the tax credit scheme. Such restrictions on fundamental political rights are antithetical to the idea of "empowering" communities.

Conclusion

The "American Community Renewal Act" would have the effect of stripping constitutional rights not just from the communities the bill seeks to empower, but for all Americans. The bill is ridden with federal mandates that override state and local law and policy. Most problematic is the legislation's egregious violations of constitutional and civil rights. Financial rewards for a community cannot come at the price of waiving First Amendment religious and expressive rights. For these reasons, the ACLU vigorously opposes H.R. 3467.

Thank you for the opportunity to present our comments to the committees.

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[18] *See* note 6.

[19] *Meek. v. Pittenger*, 421 U.S. 349, 366 (1975).

[20] *Committee for Public Education & Religious Liberty v. Nyquist*, 413 U.S. 756, 786 (1973).

Written Statement of the American Counseling Association, submitted to the House Ways and Means Committee's Subcommittee on Human Resources and the Economic and Educational Opportunities Committee's Subcommittee on Early Childhood, Youth and Families regarding H.R. 3467, "The American Community Renewal Act of 1996"

Submitted by Gail Robinson
President, American Counseling Association

The American Counseling Association (ACA) is the largest non-profit organization representing the nation's professional counselors, including mental health and substance abuse counselors. Professional counselors are master's or doctoral-level health practitioners, and are licensed or certified in 42 states and the District of Columbia. ACA greatly appreciates the opportunity to submit a written statement for the hearing record. Our comments are confined to Title III of H.R. 3467, regarding educational standards for substance abuse professionals and the provision of substance abuse treatment services by religious organizations.

The American Counseling Association applauds efforts by the federal government to increase Americans' access to effective substance abuse treatment. Substance abuse disorders are a major public health problem in the U.S., with an estimated 10% of American adults and 3% of adolescents suffering from a form of drug addiction, and millions of others categorizable as substance abusers, if not addicts. It is estimated that alcohol and other drug abuse problems cost the nation $165.5 billion in 1990. Adequate substance abuse treatment services can also help in efforts to constrain health care spending: studies show that alcoholics spend twice as much on health care services as people without alcohol problems, and that effective treatment leads to dramatic reductions in general health care spending. Alcohol and other drug abuse is closely tied to violence, accidents (including drunk driving), and to crime. According to a 1993 report by the Department of Justice, half of individuals arrested for assault and homicide test positive for illicit drugs, and two-thirds test positive for alcohol.

Substance Abuse—Causes and Treatments

Researchers are making tremendous strides in understanding substance abuse, including its origins, causes, diagnosis, and treatment. Substance abuse disorders are understood to arise from a complex set of factors, including psychological and social factors and biological predispositions. As the Department of Health and Human Services' *White Paper on the Effectiveness of Substance Abuse Treatment* states: "The roots of addiction are both organic and environmental. Like hypertension, atherosclerosis, adult diabetes and other medical conditions, addiction is caused by genetic predisposition, social circumstances and...personal behaviors.... Interpersonal relationships also have an impact on substance use and abuse. Certain drugs are highly addictive, rapidly causing biochemical and structural changes in the brain."

Scientists now know that like mental disorders such as depression and schizophrenia, substance abuse disorders affect the brain. Researchers supported by the National Institute on Drug Abuse have identified the separate sites in the brain where every major drug of abuse produces its initial

effects. A large number of Americans—according to studies as many as 9.9 million—have both a mental disorder *and* a substance abuse disorder, thus complicating their treatment considerably.

As with mental disorders, scientists are pursuing pharmacological treatments for substance abuse disorders. Prescription drugs are used in detoxification or acute treatment and in later stages of treatment for substance abuse. Disulfiram (Antabuse) and naltrexone are often used to prevent relapse among recovering alcoholics, and methadone, naltrexone, and LAAM (levo-alpha-acetyl methadol) are used in the treatment of heroin addiction. As with pharmacotherapies used in treating other health conditions, researchers are attempting to find more effective medications with fewer side effects. (As an example, 5-10% of individuals treated with naltrexone suffer such side effects as depression, nausea, and vomiting, even without drug use relapse.) No equivalent to methadone or naltrexone (for heroin) currently exists for treating crack and cocaine abusers.

Behavioral and psychosocial interventions form the basis for much substance abuse treatment, and are involved in the key treatment components of detoxification, rehabilitation, continuing care, and relapse prevention. A number of different therapies are used in drug abuse counseling, including individual or group therapy, behavior therapy, cognitive therapy, family therapy, skills training, and vocational rehabilitation. Tailored to the individual, drug abuse treatment therapies may focus on changing the thought processes underlying an individual's substance abuse, may focus on the life experiences and situations which lead the individual to substance abuse, may help the substance abuser to identify warning signs or "triggers" for relapse, or may seek to more closely integrate the substance abuser with his or her family or community. Treatment may involve all of these components, and more. These interventions work. Research has shown that even for heroin addicts, providing regular counseling, family therapy, and other services in addition to methadone maintenance significantly reduces drug use.

Spirituality is recognized as an important component of treatment for some individuals. A brief study which appeared recently in the *Journal of Addictions and Offender Counseling* stated that while much further research is needed, "it does seem clear that the association between recovery and...the use of prayer and meditation, is an important one." One of the most well-known and widespread treatment support programs for alcohol abusers, Alcoholics Anonymous, is spiritually based, although its appeals to participants' spirituality focus on a "higher power" as opposed to any one religious sect's definition of God. It should be noted that participation in AA meetings is usually used as one component of a more broad-based treatment program including additional educational and therapeutic interventions.

Given the large number of factors at play in substance abuse disorders, treatment must be flexible. To quote again from the *White Paper on the Effectiveness of Drug Treatment*, "It is...important to remember that while treatment is generally effective, no single treatment approach is effective for all persons with alcohol and other drug problems. In other words, 'one size does not fit all.' Treatment and related services must be tailored to meet the individual needs of clients, and should be culturally relevant to the population being served. An integrated system of treatment programs, containing a full range of treatment types, intensities, and cultural competencies is also a necessary goal."

Substance abuse treatment *cannot* be thought of as a one-shot, be-cured-or-else event. As with general medical conditions, substance abuse treatment cannot guarantee lifelong health. Just as individuals with hypertension or epilepsy may fail to comply with prescription drug administration or other treatment requirements, individuals in treatment for substance abuse

disorders may relapse. This does not mean that treatment should be discontinued. Research has shown that the length of time an individual spends in treatment strongly correlates with the degree of effectiveness of that treatment, even for individuals who may relapse. An individual who is spared even one relapse episode by treatment is spared a considerable amount of pain and suffering, as is his or her community.

H.R. 3467 and Substance Abuse Treatment

The American Counseling Association recognizes the importance of working with individuals' spirituality in helping them overcome a substance abuse disorder, and strongly supports the H.R. 3467's goal of increasing Americans' access to substance abuse services. Unfortunately, the legislation focuses all of its attention on religiously-oriented treatment, responding to all substance abuse and addiction problems as if they were caused by a lack of sectarian religious faith in the individual. While anecdotal evidence of the effectiveness of religiously-oriented treatment programs exists, ACA is unaware of any controlled, rigorous study which justifies placing such faith in faith-based programs, and in turning away from current approaches to substance abuse treatment and provider education. ACA believes that the Title III provisions of H.R. 3467, if enacted, will have a direct, negative impact on the quality of substance abuse services available to Americans.

- **Education qualifications for substance abuse counselors**

  The legislation expresses the sense of Congress that establishing "formal educational qualifications for counselors and other personnel in drug treatment programs may undermine the effectiveness of such programs."

  This provision adopts the "ignorance is bliss" approach to medical/social services. This extremely counterintuitive "sense" of Congress is presented for adoption without a single piece of supporting evidence.

  The legislation requires States to recognize religious education as equivalent to "secular course work in drug treatment" in defining education requirements for substance abuse practitioners.

  Despite the complexity of substance abuse disorders, their neurochemical and behavioral factors and effects, their symptoms and effects on general health, the frequent co-occurrence of mental disorders along with substance abuse disorders, and the myriad treatment modalities used in helping move the individual substance abuser toward abstinence, the legislation inexplicably seeks to *prevent* States from requiring their substance abuse counselors to be educated regarding substance abuse disorders and addictions. States have traditionally retained the right to determine qualifications and standards for medical practitioners and social services providers within their boundaries. H.R. 3467 would override this function. Again, the recognition by federal order of the religiously-trained as fully-qualified substance abuse professionals is presented without any substantiating research.

ACA is startled that the education of substance abuse counselors would be attacked by Congress at a time when researchers are learning more and more about the etiology, diagnosis, and treatment of substance abuse disorders.

- **Religious Discrimination Against Employees**

  H.R. 3467 would allow religious organizations to require that employees hired with public funds adhere to the religious tenets and teachings of the organization, and to obey any rules of the organization regarding the use of drugs or alcohol.

  Under current law, religious organizations are not required to adhere to Civil Rights Act provisions regarding nondiscrimination in employment. With their private money, churches can require that employees adhere to their religion, and place other, additional requirements on employment. While ACA firmly supports the ability of religious organizations to use private funds in this way, we firmly oppose this practice *when using taxpayer funding*. Public funds must not be used to discriminate against fully qualified and effective substance abuse counselors.

- **Religious Discrimination Against Individuals Needing Services**

  The legislation does not contain adequate protections from religious coercion for individuals receiving services.

  H.R. 3467 requires religiously-oriented treatment programs to make "alternative services" available to individuals who object to the religious character of program services. However, religiously-oriented treatment programs are *not* required to notify individuals of this right to alternative services, the alternative services are *not* required to be non-sectarian or appropriately sectarian in nature, and the alternative services are *not* required to be as accessible as religiously-oriented treatment to the individual needing help. These three requirements must be met if individuals in need of substance abuse treatment are to be free from taxpayer-sponsored religious coercion in the guise of treatment.

  ACA is also concerned that the legislation allows use of taxpayer funds for religious indoctrination and education as "substance abuse treatment." While it is undeniably important to address clients' spirituality in providing substance abuse treatment services, it is also important to recognize and respect individuals' religious freedoms. The ACA Code of Ethics and Standards of Practice states that "Counselors are aware of their own values, attitudes, beliefs, and behaviors and how these apply in a diverse society, *and avoid imposing their values on clients.*"

ACA opposes H.R. 3467 due to the above provisions, and urges the committees with jurisdiction over this legislation to address these provisions in any work undertaken on the bill.

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STATEMENT OF
THE AMERICAN FEDERATION OF TEACHERS
ON
H.R. 3467, SAVING OUR CHILDREN:
THE AMERICAN COMMUNITY RENEWAL ACT

SUBMITTED TO
THE SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
AND
THE SUBCOMMITTEE ON EARLY CHILDHOOD, YOUTH AND FAMILIES
COMMITTEE ON ECONOMIC AND EDUCATIONAL OPPORTUNITIES
FOR THE HEARING RECORD OF
JULY 30, 1996

The American Federation of Teachers, on behalf of its 900,000 members, strongly opposes H.R. 3467, Saving Our Children: The American Community Renewal Act. This legislation would undermine public education by forcing poor communities seeking renewal status to carry out a number of federal mandates including implementing private school voucher programs and privatizing school services.

The approach to education reform taken by H.R. 3467 is misguided and destructive. The bill would subject children in poor communities to yet another round of unproven education fads instead of giving them what we know works: high standards of conduct and academic achievement. In the name of "parent choice" the bill ignores what parents across all demographic groups really want: to improve, not abandon our public schools.

H.R. 3467 authorizes $5 billion over 7 years to establish private school voucher plans in 100 renewal communities. This will simply divert attention and scarce resources away from efforts to raise standards and improve achievement in public schools. These funds would be far better spent on programs like Title I, Goals 2000, Safe and Drug-Free Schools, and School -- programs which will help all schools to improve and all students to increase their achievement.

Vouchers, by contrast, will do nothing to improve student achievement. Despite the claims of voucher proponents, there is no evidence that private schools outperform public schools. Numerous studies provide proof that private school students do *not* do better than public school students, once student background characteristics are taken into account. Milwaukee's high-profile experiment with vouchers supports this fact. Four years of independent evaluation results show that voucher students do no better academically than their counterparts in public schools.

Vouchers create incentives for private schools to attract customers, not necessarily improve achievement. So there is no assurance that what schools would sell--and parents would buy--would be a better education. For example, selling points could be convenience, religious, ethnic, gender, or cultural homogeneity, winning sports teams, or even the promise of easier programs and better grades. In the post-secondary sector, the aggressive marketing of federal student aid by "trade schools" to would-be bartenders, hairdressers, and disc jockeys has produced one scandal after another at taxpayer expense. Attracting students is not the same as educating them.

Voucher proponents also claim that a voucher system would break up the public school "monopoly" and make schools more responsive to parents. But the truth is that private school vouchers would *reduce* accountability in education. Private schools don't have to account to the

public for whom they admit and whom they expel, whom they hire and whom they fire, what they teach and how they teach it, where they get their money and how they spend it, or how many students are learning and how many aren't.

Although public schools should be more accountable for their performance, they do account for how they spend taxpayers' money, follow regulations about discipline, safety, equal opportunity, curriculum, and teacher credentials, and publish information about student performance, good or bad. And they are governed by the people's elected representatives. If we want stricter accountability, that's what we should demand--rather than giving public dollars to schools that don't have to answer to the public.

Finally, voucher proponents claim that vouchers will increase parent and student choice. But what does choice mean? Many public school systems already offer school choice, and parents' options are expanding every day. H.R. 3467, on the other hand, places most of the choice in the hands of private schools. Parents may choose a private school, but that doesn't mean the school will choose their child. Thus, the term "private school choice" is misleading, because money isn't the only barrier to choosing a private school, especially one with a good reputation. In Milwaukee, for example, 40 percent of poor children who sought to participate could not find a school that would take them. And very few private schools serve children with disabilities.

H.R. 3467 would also require renewal communities to develop plans for establishing "quasi-public" charter schools and for privatizing school services. A leading assumption behind privatization efforts is that private-sector know-how will make public schools more efficient. But once again, there is no evidence supporting this claim. Let's look at the track record of the major private company that has tried to manage public schools, Education Alternatives, Inc. (EAI). In Baltimore, EAI promised a dramatic improvement in student achievement for less money . What happened? During the first year, test scores for EAI schools went down, while they went up in other Baltimore schools. Eventually, scores in EAI schools inched back to about the pre-EAI level, while EAI schools received about $500 more per student than other schools. At the same time, EAI increased class size, cut special education services, and released inflated test scores and attendance figures which they later claimed to be "clerical errors." They also laid off dozens of community residents who worked in the school system as paraprofessionals. Who replaced them? Inexperienced "interns" who were paid barely above minimum wage with no benefits. Is this the kind of community renewal our cities need? After three and a half years, the Baltimore school board finally voted to terminate EAI's contract.

In Hartford, the story was similar. Before being kicked out by the city, EAI engaged in accounting maneuvers that made the company look more successful on Wall Street than it really was. EAI also enraged taxpayers when it billed the city for thousands in first class travel for its staff, public relations fees, and condominium rent. Of course, when all was said and done, EAI did not save Hartford a penny. The assumption that private companies can educate children more effectively for less money than public school officials is without foundation. Clearly, the case for privatization rests more on fads than on hard evidence.

No one denies the fact that our schools must do a better job. But vouchers and privatization are not the panaceas that will improve education in our urban areas or other poor communities. They are simply educational fads with no evidence of success behind them, which will erode, not improve the quality of education and student achievement. The solution is to focus on what we know works: an educational system driven by clear and challenging standards, student assessments tied to those standards, accountability for student and school performance, and enough discipline to make school count. This is what works in other industrialized countries whose students outperform our own, and it is also what American parents, teachers, and the public want for our schools.

Parents and the public want our public schools fixed, not abandoned. Two-thirds of Americans oppose allowing students and their parents to attend a private school at public expense, according to the 1995 Phi Delta Kappa poll on attitudes toward public education. However, Americans do want safe, orderly public schools where children can learn challenging material in the core subjects. According to a 1994 survey by the non-partisan Public Agenda Foundation, 82 percent of all respondents and 92 percent of all African-American parents supported setting up "very clear guidelines on what students should learn and teachers should

teach in every major subject." The 1995 Phi Delta Kappa poll, reinforces this view, showing that 87 percent of respondents favor setting higher standards in basic subjects than are now required. Let's give the American people what they want, and what we know works. Real education reform is possible, but it requires support, not abandonment.

Public education is a democratic society's principal means of introducing our youth to the common values of our society and the duties of citizenship. It is society's most important investment in the future. To jeopardize this investment though vouchers and privatization as H.R. 3467 proposes would be a dangerous mistake.

Where We Stand

By Albert Shanker, President
American Federation of Teachers

Risky Business

NEW YORK TIMES
FEBRUARY 18, 1996

Charter and voucher schools are the educational equivalent of small businesses.

How can we improve U.S. education? One answer that gets a lot of applause is to introduce some form of private enterprise. Some people call for vouchers—using public money to pay for children to attend private, and largely unregulated, schools. Others tout charter schools, which are set up under state law to be independent of state and local control though they are funded by public money. Either way, supporters say, we would bypass the regulation that is strangling education. And we'd create competition among schools, causing excellent schools to flourish, good, new schools to spring up, and bad schools to close—just the way it happens in the business world.

All this sounds good, but voucher programs are rare and charter school legislation is relatively new. So we haven't had a chance to test these confident assertions against real-life examples of how the market works. Now, though, we are beginning to get some striking evidence about the down side of market schools.

In Los Angeles, a charter school for troubled teenagers was closed last year by the district. According to stories in the *Los Angeles Times*, district funds were used to lease a $39,000 sports car for the principal and pay for his private bodyguard. Expensive furniture was purchased for the administrative floors, and a "secret retreat" was held to the tune of $7000. The district started investigating the school's finances when an auditor found a discrepancy between the number of students the school was claiming—and receiving payment for—and the number that appeared on the rolls. By the time the school closed, four teachers were left to teach more than 200 students, and there was $1 million worth of unpaid bills. The school had a board of directors, but its members apparently did not pay much attention to how things were going with the students—or how the school district's money was being spent.

In Milwaukee, two schools in its voucher program for low-income students recently shut their doors, and, as I write, two more are in danger of closing. Competition? No, poor financial management, according to stories in the *Milwaukee Journal-Sentinel*. The principal at one of the failed schools was charged with passing $47,000 worth of bad checks. The other school ran out of funds and was reportedly unable to pay its teachers for several weeks. The financial problems in all four schools, three of which were new this year, arose when they enrolled fewer students than they had counted on. An official in the state education department said that administrators of the new voucher schools could have used training in financial procedures and school administration but that legislation governing these schools did not permit his department to offer it.

No one should be surprised. These charter and voucher schools are the educational equivalent of small businesses. Many of them are new, and everybody knows that the failure rate for small businesses over the first several years is very high. (According to the Small Business Administration, 53 percent of small businesses fail within 5 years of starting up, 79 percent by the end of 10 years.) Failure is usually related to what has troubled these schools—financial problems and, often, lack of experience in running a business.

The difference is that when a small business fails, it's the owners who pick up the tab. When a voucher or charter school goes out of business, it is the taxpayers' money that is thrown away. But the chief victims are the students; they are the ones who lose school time that cannot be replaced. John Witte, the evaluator for the Milwaukee voucher project, put it this way when a school closed during the first year of the experiment:

> There are those who would argue that the failure of that school is to be expected in a market system of education. Whether one believes that that expectation outweighs the fact that approximately 150 children essentially lost a year's education is a value issue that we cannot resolve. Whatever one's values are, the price was high for those families involved.

The costs and implications of charter and voucher school failure do not stop here. Where do students go when their school has shut its doors? Must taxpayers also spend money to keep public school spaces for youngsters in voucher and charter schools in case there are school closings? If not, would we put them in classes that might already be filled to overflowing? Or send them to a school with available space, no matter where the school was located? Or should we make them wait in line until the following year—the way voucher and charter schools would do?

The people who want us to embrace vouchers and charter schools pretend that doing so is as easy as saying "free enterprise." The failures in Los Angeles and Milwaukee remind us that these ventures are risky—and that all the risk falls on people who have no influence over the outcome.

STATEMENT OF AMERICAN HEART ASSOCIATION

The American Heart Association, is pleased to submit the following statement regarding certain provisions of H.R. 3467, "Saving Our Children: The American Community Renewal Act of 1996."

The American Heart Association is a non-profit, voluntary health organization funded by private contributions. The mission of the Association is to reduce disability and death from cardiovascular diseases and stroke. Cardiovascular diseases cause almost as many deaths as all other causes of death combined, at an estimated cost in 1996 of $151 billion in medical expenses and lost productivity. To combat and prevent more deaths from cardiovascular diseases, the AHA places a special emphasis on cardiovascular research, cardiovascular education and revenue generation. It is in these areas that the AHA invests its resources.

The AHA opposes Section 202 of the Talent/Watts legislation, which would establish a tax credit for certain charitable contributions and limit the allowable levels for public advocacy. As has been the case with a number of proposals during the 104th Congress, this legislation would appear to unfairly segment charitable giving by giving tax benefits to one particular sector of the nonprofit community, in essence, awarding favorable tax treatment to one category of nonprofits over all others. Second, in order to qualify for such a credit, an organization would be banned from influencing legislation, sponsoring litigation on behalf of individuals served by the charity and conducting public policy advocacy or public policy research.

We do, however, support Section 203 of the legislation, establishing a deduction for charitable contributions for taxpayers who do not currently itemize their tax deductions. Data shows that the amount of charitable giving is clearly related to the deductibility of the contribution. Itemizers earning $30,000 - $39,000 contribute 3.0% of income, compared to 1.1% for non-itemizers. For those earning $75,000 - $99,000, the ratio is 2.2 to 1.

Advocacy Prohibitions

Similar in scope to the various "Istook" amendments which failed to secure final House/Senate approval during the 104th Congress, this proposal would serve as a disincentive to the right of nonprofits to represent their constituencies before legislative and regulatory bodies. Congress has long encouraged public charities to bring their expertise and perspectives to bear on public policy issues. This proposal runs contrary to that philosophy.

On the opening day of the 104th Congress, Speaker Gingrich expressed the need to "create a partnership" and make Congress "more accessible to the American people." Charities and government agencies have long worked as partners in addressing social needs. Groups like the American Heart Association bring their expertise and experience to bear upon the legislative and rulemaking processes, and in turn we benefit from the expertise and experience of the policymaking bodies.

It is disturbing to us that the 104th Congress comes to an end the same way it began concerning this politicization of charitable organizations and their ability to raise funds and advocate their memberships' positions before Congress and the regulatory agencies. Early in the 104th Congress House Majority leader Dick Armey wrote to House Republicans asking them to contact their corporate contributors to urge them to "challenge your contacts in the corporate world to change this disturbing patter of contributing to 'liberal' advocacy groups." A copy of *Patterns of Corporate Philanthropy*, published by Capital Research Center, accompany Mr. Armey's letter. According to the book's authors, "corporate money can obscure the radical economic and political agenda of an advocacy group (and) corporations undermine traditional charities by giving to advocacy groups." We were disturbed at the time, and

continue to be, that the House Majority Leader would use his elected office to carry out this type of an agenda.

Further, for more than 25 years, the Combined Federal Campaign has been the primary means through which employees of the federal government may contribute to private voluntary organizations such as the AHA. In 1995 Congressman John Mica discussed the exclusion of certain advocacy groups from participating in the CFC. This despite 1987 legislation that requires that eligibility "shall not, to the extent that such requirements relate to litigation, public policy, advocacy, or attempting to influence legislation, be any more restrictive than any requirements established with respect to those subject matters under Section 501(c)(3) of the Internal Revenue Code of 1986."

Tax Credit Provisions

Tax Credits for poverty-fighting charities. Sounds like a good idea on the surface, but one with grave potential ramifications. The proposal by Representatives Watts and Talent, as well as similar proposals placed on the table by Representatives Kasich, Kolbe, Knollenberg and Senator Coats, redirects charitable contributions away from charities that serve the entire community despite their provision of equally important services such as disaster relief, counseling, education and health care.

In addition, the tax credit may well create a paperwork nightmare for eligible charities. Many charities that serve the poor, such as religious organizations, especially those that do so with contributions rather than government funds, do not regularly inquire into or keep records of the income of those they serve. Under this legislation they would have to begin doing so to establish their eligibility for tax credit contributions.

While such incentives clearly would encourage certain types of charitable giving, they would not raise nearly enough revenue to offset proposed federal budget cuts to programs that predominantly serve the poor. Poverty-fighting charities will still struggle to meet increasing demands with fewer resources.

What is particularly surprising about these proposals is that they come during a period of great debate over simplification and fairness in the current tax code. Simpler flat tax, consumption tax and sales tax proposals have been embraced by many in Congress, some of the same legislators who wish to establish these new credits. At the same time, several of these proposals would eliminate the across the board charitable deduction. Congress can't have it both ways!

According to a recent study by the Beacon Hill Institute (BHI), contained in *Giving Credit Where Credit is Due: A New Approach to Welfare Funding* (December 1995), non-itemizers give $38.5 billion in charitable donations each year, $6.3 billion of which goes to charities that would be eligible for the tax credit. This means that approximately $32.2 billion would potentially be transferred to the targeted charities. The potential effect on the non-profit community might well be significant. The tax credit creates a situation where many taxpayers could easily reason that taking the credit means they are giving more to charity.

The idea of the credit raises a number of potential concerns by the American Heart Association and its non-profit partners. The credit:

- divides the charitable community into "worthy" and "less worthy" categories
- provides an incentive to "switch" from welfare spending through taxes to donations to private charities. It does not provide an incentive to give more.
- creates an incentive for all taxpayers to substitute donations to charities eligible for the tax credit for donations they currently make to charities that would be ineligible for the credit

On the positive side, the Talent/Watts legislation extends the charitable deduction to non-itemizers, unlike the Coats-Kasich legislation which extends the tax credit to non-itemizers, but not the charitable deduction, providing an additional incentive to non-itemizers to substitute eligible for ineligible donations.

But is an organization like the American Heart Association, less worthy? In 1994-95, the AHA raised $317.9 million. Of that total, $256.5 million came from public support. Public support includes income from contributions, special events, legacies and bequests, and other funds received indirectly from fund-raising agencies. The AHA receives no direct funding form the federal government.

To support its mission the AHA has contributed almost $1.4 billion dollars to cardiovascular research since 1949, and has developed educational programs designed to promote health, and to prevent and reduce the risk of heart disease and stroke. In 1994-95 the AHA spent $93.9 billion on research; $61.2 million on public health education; $37.8 million on professional education, and $43.4 million on community services. With those funds, the AHA informed 47.7 million Americans about what they can do to prevent heart diseases and stroke. The AHA also serves as the public's unwavering advocate in the fight against heart attack and stroke. More than four million volunteers are active in the work of the AHA.

We agree with our over 800 partners at Independent Sector, a coalition of voluntary organizations, foundations and corporate giving programs with national interest and impact in philanthropy and voluntary action, in expressing our concern with certain aspects of allowing a tax credit only for charities which serve the poor.

The proposed tax credit may establish a precedent for much greater government control over how charities spend their private resources. As previously mentioned, charities receiving tax credit contributions would have to accept new limits on the types of programs they offer, and how much they may spend on advocacy, fundraising and management.

Unfortunately, the tax policy stimulation for giving to organizations serving the poor would not nearly offset the proposed cuts in welfare spending. In 1994, private contributions from individuals, corporations, foundations, and bequests totaled an estimated $105 billion. Research prepared by Alan Abramson of the Aspen Institute and Lester Salamon of Johns Hopkins University earlier this year found that charities cannot come close to filling the gap for proposed cuts in the funding of social programs. For 1996, all things being equal, the projected growth in giving was $3.3 billion. On the other hand, the projected cuts in social programs alone was $14.1 billion.

In conclusion, rather than limiting the nonprofit community's ability to provide expertise to policymakers and its obligation to represent its individual constituencies, the Congress should approve additional incentives for the full spectrum of charitable giving. The American Heart Association supports legislation introduced by Representatives Philip Crane (R-IL), Charles Rangel (D-NY) and Christopher Cox (R-CA) which would permit a partial charitable deduction for non-itemizers and would eliminate the 3% floor on charitable tax deductions for high income taxpayers.

STATEMENT OF JOHN D. SPARKS
DIRECTOR OF GOVERNMENT AFFAIRS
AMERICAN SYMPHONY ORCHESTRA LEAGUE

NEW TAX CREDIT PROPOSALS MAY NOT HELP CHARITIES

Several members of Congress have introduced proposals to create a new tax credit for taxpayers who donate to nonprofit organizations that directly serve the poor. Though they differ in scope and detail, all of these proposals seek to reduce or phase out government-provided welfare. They assume that centralized, bureaucratic anti-poverty programs have failed, and that private charitable and faith-based organizations can achieve more success. The proposed tax credits offer taxpayers the choice of helping the poor through government-based programs (by their tax obligation) or private charities (by their donations to eligible charities).

No one knows for sure precisely how a new credit would affect giving to charities. Proponents of the proposed legislation rely on a study by the Beacon Hill Institute (BHI) at Suffolk University in Boston. The study is presented in Giving Credit Where Credit is Due: A New Approach to Welfare Funding, a BHI document produced in December 1995, and makes the general case for replacing government welfare programs with individual donations to private charities. This document is supplemented by Tax Credits for Charitable Contributions: Alternatives, Projections and Comparisons, produced by BHI in March 1996 to answer some of the objections raised to the original proposal.

BHI maintains that the total amount of social service to the poor rises with a targeted tax credit because tax incentives for charitable contributions lead to:

(1) Increased Giving. The provision of a tax credit amounts to a reduction in the "price" of giving. A 100% tax credit reduces the price to zero. They estimate that the provision of a tax credit would cause private giving to *expand* by an amount greater than tax revenues *contract* and thus cause the total amount of social services to the poor to expand.

(2) Increased Voluntarism. BHI asserts that a tax credit that spurs increased giving would result in increased voluntarism because of the positive correlation between giving and volunteering. (They assume a reverse-causation effect.)

(3) Increased Efficiency. Because nonprofit organizations rely more on volunteers than either government agencies or private sector businesses, they are more efficient at delivering services.

(4) Reduced "Crowd Out". BHI contends that government spending "crowds out" private giving. BHI estimates that every dollar of government spending reduces private giving by about 10 cents, and that decreasing government spending would, therefore, result in increased giving.

Each of these contentions begs the question of whether or not a tax credit for charitable donations to selected nonprofits would increase giving overall. We believe that the BHI study is unpersuasive. Indeed, the study raises more questions about the viability of a charity tax credit than it answers. Nevertheless, it appears to be the *only* research document used by the authors of the Kolbe-Knollenberg (H.R. 2225), Talent-Watts (H.R. 3467), and Coats-Kasich (S. 1904) versions of the credit.

To determine whether the BHI conclusions are supported by other research, we have contacted the American Enterprise Institute, the Aspen Institute, the Brookings Institute, the Cato Institute, the Center for Budget and Policy Priorities, Citizens for Tax Justice, the Heritage Foundation, the Hoover Institute, the Hudson Institute, the National Center for Policy Analysis, the Progressive Policy Institute, and the Urban Institute. In nearly every case we were referred back to the BHI study.

We think the study is weakest on the issue of *substitution* - the potential for taxpayers to substitute donations to charities that are eligible for the tax credit for the donations they currently make to charities which would be ineligible for the credit. The BHI study performs a number of "empirical" tests which purport to show that individuals do not substitute one form of giving for another. These tests may be inadequate measures of the likely outcome of the credit.

Revealingly, the BHI proposal for the charity tax credit includes a restriction on the reduction of giving to ineligible charities. The BHI version requires that those taking the credit meet or exceed their charitable deductions from the previous year. Despite the practical questions such a proposal raises, the inclusion of this "penalty for substitution" undermines BHI's assertion that substitution would not occur.

The tax credit, as currently proposed, provides an incentive to substitute by creating the perception among taxpayers that "switching" their personal outlay for welfare from tax obligation (for government-provided welfare) to donations to private charities results in increased "giving." Most individuals do not perceive paying taxes as "giving." But they do perceive an upper bound limit to the amount they can/will give to charity. The tax credit creates a situation where many taxpayers could easily reason that taking the credit means they are giving more to charity. Consequently, they could justify reducing their total outlay for all (welfare and other) charities, essentially pocketing the difference as a reduction in taxes.

In addition to suffering a lack of evidence to support its economic assumptions, the tax credit insinuates a dangerously narrow definition of charity, with government dividing the charitable community into "worthy" and "less worthy" charities. Current deductions for charitable contributions do not judge the worthiness of nonprofit organizations in relation to one another. The tax credit targets a specific, narrow group of charities, creating a hierarchy of charitable interests.

We are equally concerned that, like the Istook-McIntosh-Ehrlich amendment, the limitations on public policy advocacy included in the Talent-Watts version of the charity tax credit raise serious constitutional and administrative questions. As one example, on a practical level, placing restrictions on activities defined as "public policy advocacy" and "public policy research" may restrict charities from meeting with a member of the city council, the mayor, or the department of social services about programs that affect the individuals and families they serve.

Many nonprofit organizations are critical sources of information about the communities they serve. Gathering and disseminating such information could be seen as a form of advocacy or public policy research. The Talent-Watts bill precludes this essential function of the very charities that Talent-Watts purports to help.

The proposed tax credit raises several other philosophical and logistical questions which are not directly addressed by the BHI study. Nonetheless, it seems to be the only study, to date, offered as evidence of the efficacy of the tax credit proposal.

We urge members of Congress, especially those members on the House Ways and Means and House Economic and Educational Opportunities Committees with jurisdiction over H.R. 3467, to recognize the limitations of the charity tax credit, and instead support measures that would *truly* help the nation's charities meet their community service goals: extend the current deduction for charitable contributions to non-itemizers, and eliminate the 3% floor on deductions for charitable contributions.

THE AMERICAN SYMPHONY ORCHESTRA LEAGUE
John Sparks, Director of Government Affairs
Christopher Cooper, Government Affairs Assistant
July 29, 1996

STATEMENT OF INDEPENDENT SECTOR

H.R. 3467, "Saving Our Children: The American Community Renewal Act of 1996"
Section 202 - Credit for Certain Charitable Contributions

INDEPENDENT SECTOR is a national leadership forum, working to encourage philanthropy, volunteering, not-for-profit initiative and citizen action that help us better serve people and communities. Founded in 1980 and based in Washington, D.C., INDEPENDENT SECTOR is a national coalition of 800 voluntary organizations, foundations and corporate giving programs.

The organization of INDEPENDENT SECTOR and its mission derive from its Members' shared commitment to fundamental values related to the creation and maintenance of a truly free society.

We discuss below the potential positive and negative aspects of establishing a tax credit for contributions to charitable organizations that predominantly serve the poor as defined in Sections 202 and 203 of H.R. 3467. First, we want to explain why charitable organizations are important to America.

THE IMPORTANCE OF CHARITABLE ORGANIZATIONS TO AMERICA

Nearly one million charitable, cultural, educational, environmental, religious, health and social welfare organizations create, nurture and sustain the values that frame American life. They promote altruism, in a society that reinforces self-interest; community, in a society that rewards individual achievement; and pluralism, in a society sometimes threatened with divisiveness. They provoke, challenge, and question. They also teach meditate, and heal.

Collectively, these organizations represent an increasingly important sector of our society: the independent sector. They function on a not-for-profit basis, entrusted with public purposes and barred by law from private gain. They are exempted from tax on their assets and on income from their public-purpose activities. Those who support them with gifts can deduct those gifts from their own taxable income. Volunteers provide their boards with essential leadership, stewardship and accountability, and play vital roles at all levels.

The independent sector receives support from both private contributions and volunteers. In 1994, private contributions from individuals, corporations, foundations, and bequests totaled an estimated $105 billion. It is also estimated that 55 million people volunteered their services to the independent sector in 1994, or the equivalent of $115 billion. In the same year, the sector expended a sum approaching $500 billion in providing vast and varied services.

Organizations of the independent sector create, nourish, enlarge, and sustain communities. Education equips individuals with scholarship, discipline, and creativity to contribute effectively to community life. Arts, culture and the humanities stimulate community self-discovery, self-awareness, and self-definition. They preserve a community's heritage, challenge its assumptions, and refine its perceptions.

Human service, health and religious groups bring commitment to the community's welfare. They instill compassion for community members in need, and provide the mechanisms to address particular community problems. Human rights, environmental and public policy groups teach leadership, consensus-building, and citizen participation skills that ensure community vitality. They empower individuals to lead, and offer them leadership opportunities.

In summary, business and government alone cannot sustain altruism, pluralism, and community - principles fundamental to American society - nor the underlying values of trust, compassion, justice and moral behavior that bind us together.

The independent sector has become America's linchpin. Business, government and, in fact, all Americans have a fundamental stake in preserving and strengthening it.

THE IMPACT ON THE INDEPENDENT SECTOR OF ESTABLISHING A TAX CREDIT FOR CHARITABLE CONTRIBUTIONS TO 501(c)(3) ORGANIZATIONS THAT PREDOMINANTLY SERVE THE POOR

Section 202 of the bill establishes a tax credit for charitable contributions for up to 75% of the qualified charitable contributions which are paid by the taxpayer during the taxable year. The credit is limited to $200 for single filers and $400 for joint filers.

The tax credit may only be redeemed if the charitable contribution is made to a "qualified charity aiding the poor." To meet this definition and be eligible to accept tax credit redeemable charitable contributions an organization must meet the following conditions:

a) The organization must be tax- exempt under Section 501(c)(3) of the Internal Revenue Code;

b) the predominant activity of the charity must be the provision of direct services to individuals whose annual incomes generally do not exceed 185% of the official poverty line. Charitable organizations that provide temporary donations of food or meals or temporary shelter to homeless individuals would not have to adhere strictly to the 185% of the poverty line standard, but would have to "reasonably conclude" that the beneficiaries of their services are the poor. (185% of the poverty line is equal to an income of $28,860 for a family of four), and;

c) qualified organizations may spend up to 25% or less of their annual aggregate expenditures on administration, support of their services and fundraising.

INDEPENDENT SECTOR'S POSITION ON TAX CREDITS

INDEPENDENT SECTOR has not taken a position for or against the use of tax credits as a tax incentive for charitable giving. Following are our comments on the legislation.

THE POTENTIAL POSITIVE AND NEGATIVE IMPACTS ON INDIVIDUAL CHARITABLE GIVING:

Positive:
Providing a tax credit to nonitemizers may help increase the total amount of contributions by supporting increased giving by the approximately 71 million taxpayers who do not presently benefit from the tax deduction for charitable contributions because they do not itemize their deductions. If people increase their contributions in response to the tax credit, rather than simply switching contributions from one type of charity to another, everyone will benefit.

INDEPENDENT SECTOR is supportive of Section 203 of H.R. 3467 which establishes a charitable deduction for nonitemizing taxpayers. IRS data from 1981-1986 show that extending the charitable deduction to nonitemizing taxpayers would provide a significant incentive for increase charitable giving by middle and low income taxpayers (see attachment A).

Negative:
Targeting the tax credit injects government into what is traditionally, the individual taxpayer's decision-making process about which charities to make charitable contributions. Further, the tax credit is structured so that the government subsidizes charitable giving to some organizations over others.

One of the fundamental principles regarding why the tax code permits a charitable deduction

is that government should encourage private giving to a wide variety of organizations that serve a broad spectrum of needs and causes. The proposed tax credit targeted for contributions to strictly poverty-fighting organizations usurps the individual taxpayer's freedom to determine the recipient of the gift.

THE IMPACT ON INDEPENDENT SECTOR ORGANIZATIONS

At a time when charities are being asked to take on more responsibilities from government for public services, it is important that tax incentives for charitable giving benefit charities equally, regardless of their mission. The proposed tax credit divides charities into two groups. It favors groups that predominantly serve the poor over those that do not. Moreover, the tax credit may redirect charitable contributions away from charities that serve the entire community regardless of income, such as YMCAs, Girl Scouts or Lutheran Social Services, or it may redirect contributions away from organizations that provide equally important services such as disaster relief, education, culture and safety-training, as do the American Red Cross, the Studio Museum in Harlem and Mothers Against Drunk Driving.

Federal tax exemption incorporates a broad historic definition of charity that includes a wide range of activities and services that benefit the public. It is in our common interest to maintain the broad definition of charity and not accede to a definition that implies that charity is restricted to serving the poor, important as those services are. We can ill afford any measure that has the effect of pitting charitable organizations against one another.

Limitation on Public Advocacy

Section 202 of H.R. 3467 states that charitable organizations may only become eligible for the tax credit redeemable contributions if they have not engaged in the following public policy related activities:

a) activity for the purpose of influencing legislation;

b) litigation on behalf of any individual served by the charity (i.e. the poor), and;

c) voter registration, political organizing, public policy advocacy, or public policy research.

Like the Istook Amendment heatedly debated in the 104th Congress, the limitations on public advocacy activities, included in this bill, may raise similar constitutional questions. On a practical level, placing restrictions on activities defined as, "public policy advocacy" and "public policy research" may limit a local charity from convening the public to address public policies that affect the poor. Further, the limitation may restrict a charity from meeting with a member of the city council, the school board, or the department of social services about programs that affect the poor, and may restrict charities from studying how a law or ordinance affects those they serve.

INDEPENDENT SECTOR opposes this provision, as it would have the effect of silencing charities' voice in the public debate over how laws affecting those they serve are implemented. Advocating, critiquing government, and offering alternatives are sometimes a charity's best service. Placing restrictions on how charitable organizations spend their private resources to serve clients and communities establishes an unacceptable precedent of government control over charities' use of private contributions. INDEPENDENT SECTOR strongly urges that this restriction be dropped from the bill.

New limitation on management and fundraising expenses:

The bill also states that a charity qualifying for tax credit contributions may not spend more than 25% of annual expenses for administration and fundraising related to their direct poverty fighting services. Although the decision to qualify for tax credit contributions is ultimately

optional for charitable organizations, this is an arbitrary limitation on the amount of private funds which a charitable organization may spend on mission related functions. The Supreme Court has ruled that government may not impose a flat percentage limit on the fund-raising costs of organizations raising money in the community. [1]

New administrative burdens for charities to qualify for tax credit:

The proposed tax credit will create a paperwork nightmare for eligible charities. Many charities that serve the poor, especially those that do so with contributions rather than government funds, do not regularly inquire into or keep records of the income of those they serve. Except for soup kitchens and homeless shelters and similar facilities, charities will have to begin means testing their clients to establish their eligibility for tax credit contributions. Religious organizations that do not qualify will have to establish separate organizations, complicating governance and adding to the paperwork burden. Organizations would have to keep two sets of books, one that conforms to current accounting guidelines and one that uses the expense allocation rules dictated in the tax credit proposals.

New disclosure requirement:

The bill states that all "qualified charities" upon request of an individual made in person must provide a copy of their annual tax return (Form 990) without charge other than a reasonable fee for any reproduction and mailing costs. If the request is made in person, copies must be made available immediately, and if made other than in person, shall be provided within 30 days.

INDEPENDENT SECTOR is supportive of this requirement which will be enacted into law shortly as part of the Taxpayer Bill of Rights legislation now awaiting the President's signature.

Paying for a tax credit and the limits of private philanthropy:

While H.R. 3467 does not state how the proposed tax credit would be paid for with current federal budget offsets, it should be known that even with new charitable tax incentives, such as the targeted charity tax credit as proposed in Section 202, or the nonitemizer deduction in Section 203, private philanthropy cannot come close to filling the gap for proposed cuts in the funding of social programs. Moreover, if the tax credit is paid for by cutting federal spending on social programs, it simply shifts the burden of responsibility for providing social services to charities. As charities are already attempting to meet increased demands with fewer resources, tax policy related to charitable giving should not be viewed as a mechanism for shifting ultimate welfare responsibility to charitable organizations, for it runs the risk of ending charities' role being different from government.

In their most recent research of June 28, 1996, Alan J. Abramson (The Aspen Institute) and Lester M. Salamon (Johns Hopkins University) state:

> "What is the likelihood that private philanthropy, including charitable giving by individuals, foundations and corporations, could make up for the spending cuts proposed in the FY 1997 Congressional budget resolution?
>
> "Our analysis indicates that private giving would have to rise by rates far above its historical rates of increase to fill the gap created by proposed federal spending cuts. Thus, just to offset the direct revenue losses that nonprofit

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[1] *Regulation of Charitable Fundraising: The Schaumburg Decision, A Summary Report from Independent Sector, Independent Sector, 1981.*

organizations are projected to experience under the Congressional budget plan, private giving would have to increase by an added nine percent over its projected rate of giving in fiscal year 1997. This is three times greater than its recent average. By 2002, the increase would have to be 27 percent, 10 times greater than has typically occurred in recent years (see table 6). To offset the entire reduction in federal spending in fields where nonprofits are active, the added increase in private giving by the year 2002 would have to be even higher -- 68 percent -- or 20 times faster than its projected rate."

SUMMARY

INDEPENDENT SECTOR applauds Congressmen Talent and Watts for their interest in encouraging charitable giving. However, the proposed tax credit contains significant problems for charities and may result in a redistribution of current charitable giving rather than encouraging charitable giving nationally that will serve the entire independent sector. We support the establishment of a charitable tax deduction for nonitemizers as it would provide a tax incentive for charitable contributions to all of America's important causes, including those that serve the poor. It is important to underscore the point that new charitable tax incentives will not raise enough private funds to offset proposed budget cuts. To shift the service delivery responsibility to charities even if it were possible for charities to fill the service delivery gap with the help of new tax incentives for charitable giving - overestimates the capacity of charities to provide services to all those who are in need and runs the risk of ending charities' role to be different from government.

INDEPENDENT SECTOR looks forward to working with Congressmen Talent, Watts and both the Committee on Ways and Means Subcommittee on Human Resources and the Committee on Economic and Educational Opportunities Subcommittee on Early Childhood, Youth and Families on ways to encourage charitable giving to all organizations of the independent sector.

Attachment A

A CHARITABLE TAX DEDUCTION FOR NONITEMIZERS SHOULD BE ENACTED BY CONGRESS

Since Congress permitted the charitable tax deduction for nonitemizers to sunset in 1986, seven of ten taxpayers, the nonitemizers, can no longer deduct their charitable contributions and the resulting loss in charitable giving has been substantial. This becomes obvious when a comparison is made of the amount contributed by itemizers and nonitemizers who are in the same income groups.

Income Group	Amount Contributed by Itemizers	Amount Contributed by Nonitemizers	% of Income Contributed by Itemizers	% of Income Contributed by Nonitemizers
0 - $10,000	$317	$244	1.3%	2.8%
$10,000 - $19,000	$795	$421	3.0%	2.1%
$20,000 - $29,000	$813	$505	2.2%	2.9%
$30,000 - $39,000	$726	$543	3.0%	1.1%
$40,000 - $49,000	$1,289	$692	1.9%	0.6%
$50,000 - $74,000	$1,341	$898	1.9%	1.3%
$75,000 - $99,000	$1,612	$1,899	2.2%	1.0%
$100,000 +	$2,491	$2,199	3.8%	2.0%

The average annual amount contributed by itemizers is $1,313; the average by nonitemizers is $509.

Eighty one million taxpayers are nonitemizers. It is clear that if all nonitemizers raised their contributions to the amount given by itemizers, giving would increase greatly. In fact, charitable contributions by nonitemizers increased by 40% or $4 billion from 1985 to 1986, according to Internal Revenue Service data. Nonitemizers were permitted to deduct only 50% of their charitable contributions and they gave $9.5 billion that year. In 1986, they could deduct a full 100% and, according to the IRS, they gave $13.4 billion - an increase of 40%. The message from that experience is apparent. Charitable tax deductions do stimulate substantially increased giving from middle income Americans.

Nonitemizers are low to middle income Americans (65 million have incomes under $30,000 a year) who support services such as the Red Cross and the American Cancer Society. They give to churches and synagogues, environmental organizations, schools, colleges, hospitals, food programs for the homeless, and the Boy Scouts and Girl Scouts. They give to advocacy organizations, health research, the arts, international development, and myriad activities in the public interest that enrich our society and protect its people. Congress should enact a legislation that will permit these moderate income Americans to take a deduction for their contributions to charity.

April 17, 1995

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THE FEDERAL BUDGET AND THE NONPROFIT SECTOR: FY 1996 AND FY 1997

by

Alan J. Abramson, The Aspen Institute, and
Lester M. Salamon, Johns Hopkins University

Prepared for INDEPENDENT SECTOR

Following their takeover of the House of Representatives and Senate after the November 1994 election, Republicans in Congress proposed to make substantial cuts in federal non-defense spending in order to eliminate the federal deficit by fiscal year (FY) 2002 and also pay for sizable tax cuts.[1] As it turned out, presidential resistance made it impossible for the Republican majority in the Congress to enact all of its proposed reductions, particularly those affecting entitlement programs, such as Aid to Families with Dependent Children (AFDC), Medicaid, and Medicare. However, the omnibus appropriations act that passed the Congress in the spring of 1996 did make a significant downpayment on the proposed reductions for FY 1996, at least with regard to many nondefense discretionary programs.[2] In the meantime, President Clinton submitted a budget plan for FY 1997 and beyond that would make significant cuts in federal domestic spending in order to balance the budget by FY 2002, and in mid-June, Congress approved its own budget resolution calling for even larger cuts in both discretionary and entitlement non-defense spending. The purpose of this report is to analyze the implications of this recent budget activity for nonprofit organizations.

The federal fiscal year runs from October 1 through September 30. The current fiscal year, FY 1996, began on October 1, 1995 and will end on September 30, 1996.

"Entitlement" programs are programs in which spending is essentially automatic, and spending levels depend on benefit levels and eligibility requirements set in authorizing legislation and also on other factors, such as the state of the economy. "Discretionary" programs are programs in which spending levels are set annually through the appropriations process.

FY 1996 Federal Budget

Thanks to the action taken on appropriations bills for FY 1996, overall federal spending in budget functions of particular interest to nonprofit organizations is projected to decline by $2.7 billion between FY 1995 and FY 1996, after adjusting for inflation, despite continued growth in spending for entitlement programs in the areas of income assistance and health (see table 1).[3] Indeed, in some areas, such as education, training, employment, and social services and international assistance, the reductions in outlays in this one year are projected to be quite a bit higher–nine percent and six percent respectively.

Behind these aggregate figures lie even sharper cutbacks at the individual program level, particularly with respect to many programs of special interest to nonprofit organizations. Thus, as shown in table 2, aggregate spending on the discretionary programs of greatest interest to nonprofit organizations is projected to decline by 12 percent between FY 1995 and FY 1996, after adjusting for inflation.[4] Included here are cuts of:

- 20 percent in selected programs of the Department of Housing and Urban Development;
- Nine percent in selected programs of the Department of Education;
- Eight percent in selected programs of the Department of Health and Human Services; and
- 20 percent or more among such agencies as the Corporation for Community and National Service, the National Endowments for the Arts and Humanities, the Corporation for Public Broadcasting, the Legal Services Corporation, and the Community Development Financial Institutions.

Because government relies heavily on nonprofit organizations to deliver publicly financed services, changes in federal spending have significant implications not only for the scope of government action in these fields but also for nonprofit revenues. Overall federal support of nonprofit organizations in FY 1996 is now projected to be $1.3 billion, or 1

The six budget functions of concern to nonprofits included in this analysis are: international affairs (function 550); community and regional development (450); education, training, employment, and social services (500); health (550); Medicare (570); and income assistance (600). These six functions, out of the 20 functional areas in the budget, account for approximately 35 percent of all federal spending and well over 90 percent of all federal assistance to nonprofit organizations. Inflation-adjustments for all programs except Medicare and Medicaid were accomplished by converting spending totals to constant 1995 dollars using the "Chained Gross Domestic Product (GDP) price index." For Medicare and Medicaid, the deflator that was used reflects projected baseline (i.e., "current services") spending and incorporates not only projected changes in prices but also expected changes in utilization of health services and the size of the beneficiary population.

In this analysis, spending levels for budget functions are given in "outlays" and for individual programs in "appropriations." Appropriations and outlays are different stages of the federal budget process. Appropriations represent, in a sense, the checking account balance for programs. Appropriations provide agencies with the authority to enter into obligations that will lead to the spending of government funds in the same or future years. Outlays refer to the actual disbursement of government funds. The relationship between appropriations and outlays varies from program to program. In some programs, appropriations lead to outlays in the same year; in others, there is a delay between appropriations and outlays.

percent, below FY 1995 levels, after adjusting for inflation (see table 3). As a result of the appropriations cuts in selected programs described above, we estimate that nonprofits will lose $1.7 billion, or 10 percent, of the federal support they receive through these programs, as shown in table 2.

FY 1997 Congressional Budget Resolution

Overall Spending

The FY 1997 Congressional budget resolution represents the Congress's latest long-term plan to balance the federal budget by FY 2002. Under the Congressional plan, which was approved by the House of Representatives on June 12 and by the Senate a day later, federal outlays in the policy areas of concern to nonprofits would be $60.9 billion, or 11 percent, below FY 1995 levels by FY 2002, after adjusting for inflation (see table 4). FY 2002 federal outlays for community and regional development would be 51 percent below FY 1995 levels; outlays for international assistance would be 45 percent lower; spending for education, training, employment, and social services would be 24 percent lower; and outlays for health would be 17 percent lower. At the same time, FY 2002 federal income assistance outlays would be six percent above FY 1995 levels.

Over the six-year period, FY 1997-2002, federal outlays in the six functions of concern to nonprofits would be reduced by a cumulative total of $216.2 billion compared to FY 1995 levels, after adjusting for inflation. With income assistance excluded, federal outlays would decline by a cumulative six year total of $268.3 billion.

Nonprofit Revenues

These cuts, if they are ultimately enacted into law, will result in significant reductions in federal funds flowing to nonprofit organizations. We estimate that by FY 2002, federal support of nonprofits under the FY 1997 Congressional budget resolution, would be $24.1 billion, or 18 percent, below FY 1995 levels (see table 5). Over the six years FY 1997-2002, nonprofits would lose a cumulative total of $89.1 billion of their federal revenues under the Congressional budget package.

Comparison to President Clinton's FY 1997 Budget

The Congressional budget resolution sets federal spending through FY 2002 substantially below the level proposed by President Clinton in his FY 1997 budget, which was released in March 1996. Over the six-year period FY 1997-2002, the cumulative cuts in spending in the budget functions of concern to nonprofits that are proposed in the Congressional plan are 1.8 times larger than those in the president's plan; $216.2 billion versus $120.1 billion, as shown in table 4. Similarly, the cumulative, six-year reductions in federal support to nonprofits would be 1.4 times greater under the Congressional plan than the president's plan; $89.1 billion versus $65.4 billion (see table 5).

Implications for Private Giving

What is the likelihood that private philanthropy, including charitable giving by individuals, foundations, and corporations, could make up for the spending cuts proposed in the FY 1997 Congressional budget resolution?

Our analysis indicates that private giving would have to rise by rates far above its historical rates of increase to fill the gap created by proposed federal spending cuts. Thus, just to offset the direct revenue losses that nonprofit organizations are projected to experience under the Congressional budget plan, private giving would have to increase by an added nine percent over its projected rate of giving in fiscal year 1997. This is three times greater than its recent average. By 2002, the increase would have to be 27 percent, 10 times greater than has typically occurred in recent years (see table 6).[5] To offset the entire reduction in federal spending in fields where nonprofits are active, the added increase in private giving by the year 2002 would have to be even higher–68 percent–or 20 times faster than its projected rate.

Conclusion

Fiscal year 1996 marked a clear change in direction in federal spending on budget functions of concern to nonprofit organizations and federal support of nonprofits. Following the sharp spending cuts of the early 1980s, federal spending on many of these programs of concern to nonprofits increased, although funding levels in some key areas as of FY 1995 still remained well below FY 1980 levels after adjusting for inflation. However, for many programs, the period of modest recovery from the 1980s cuts stopped in FY 1996 and in some policy areas spending declined below FY 1995 levels in FY 1996. The FY 1997 Congressional budget resolution would continue and accelerate many of these reductions. Because President Clinton also appears to favor a portion–although not all–of these spending cuts, it now appears certain that nonprofits have entered a new period of fiscal stringency. Moreover, it is extremely doubtful that private giving could increase enough to offset either the federal support nonprofits are projected to lose or the larger amount of cuts in overall federal spending in budget functions of concern to nonprofits.

Whether upcoming FY 1997 budget decisions will actually follow the blueprint of the FY 1997 Congressional budget resolution is difficult to determine, however. Last year, the FY 1996 Congressional budget resolution had some impact on appropriations activity, which shapes spending on discretionary programs, but its guidance on entitlement programs was largely ignored. Some experts are now predicting that partisan disagreements magnified by election year pressures will make it impossible for Congress and the president to agree on "reconciliation" bills that implement the cuts in entitlement programs that are mandated by the FY 1997 Congressional budget resolution.

June 28, 1996

These figures assume three percent annual real growth in private giving from all sources over the period 1996-2002. The baseline giving level used for this analysis, which starts from projected giving of $78.3 billion in 1995, is derived from estimates prepared by Independent Sector. The figures reported here are the percentage increases required *in excess of* the projected three percent growth to accommodate inflation. The giving analysis excludes giving for sacramental religious purposes.

Table 1

Federal Spending in Budget Functions of Interest to Nonprofit Organizations, Estimated FY 1996 Outlays vs. Actual FY 1995 Outlays (in Billions of Constant 1995 Dollars)

Budget Function	Actual FY 1995 Spending Level	Estimated FY 1996 vs. Actual FY 1995	
		Amount	Percent
Education, Training, Employment, Social Services	$54.3	-$5.0	-9%
Community and Regional Development	10.6	0.2	2%
Health[a]	275.3	0.3	0%
Income Assistance	220.4	2.7	1%
International Affairs	16.4	-0.9	-6%
Total	$577.0	-$2.7	0%
Total, excluding Income Assistance	$356.6	-$5.4	-2%

Source: FY 1996 amounts from U.S. House of Representatives, Committee on the Budget, "Concurrent Resolution on the Budget--Fiscal Year 1997," 104th Congress, 2d Session, Report 104-575; and FY 1995 amounts from U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 1997, Historical Tables*. Conversion to constant 1995 dollars was accomplished by using the "Chained Gross Domestic Product (GDP) price index" for all programs except Medicare and Medicaid. For these two programs, the deflator that was used reflects projected baseline (i.e., "current services") spending and incorporates not only projected changes in prices but also expected changes in utilization and the size of the beneficiary population.

a. Includes health (function 550) and Medicare (570).

Table 2

Federal Appropriations for Selected Programs of Concern to Nonprofit Organizations, Enacted FY 1996 vs. FY 1995 Levels
(In Billions of Constant 1995 Dollars)

Agency Program	FY 1995 Appropriations	FY 1996 vs. FY 1995 Appropriations	
		Amount	Percent
Dept. of Agriculture[a]	$3,470.0	$170.5	5%
Supplemental Food for Women, Infants, and Children (WIC)	3,470.0	170.5	5%
Dept. of the Interior[a]	41.4	-5.8	-14%
Historic Preservation Fund	41.4	-5.8	-14%
Urban Park and Recreation Fund	0.0	0.0	0%
Department of Labor[a]	4,352.6	53.4	1%
Training and Employment Services Adult and Youth Training, Summer Youth, etc.)	3,956.5	85.8	2%
Older Workers	396.1	-32.4	-8%
Dept. of Health and Human Services[a]	14,298.7	-1,076.6	-8%
Low-Income Home Energy Assistance	1,319.2	-441.7	-33%
Health Resources and Services (Health Centers, Maternal and Child Health, AIDS Care, etc.)	3,028.2	-28.0	-1%
Mental Health Block Grant	275.4	-6.9	-3%
Substance Abuse Block Grant	1,234.1	-30.9	-3%
Refugee and Entrant Assistance	399.8	-7.7	-2%
Social Services Block Grant	2,800.0	-478.5	-17%
Community Services Block Grant	389.6	-9.7	-3%
Head Start	3,534.4	-53.6	-2%
Child Welfare Services	292.0	-21.5	-7%
Family Support and Preservation	150.0	69.4	46%
Administration on Aging	876.0	-67.4	-8%
Department of Education[a]	20,708.6	-1,896.9	-9%
Education Reform	494.4	22.4	5%
Education for the Disadvantaged	7,228.1	-180.7	-3%
Safe and Drug-Free Schools	466.0	-11.7	-3%
Rehabilitation Services	2,393.4	1.3	0%
Vocational and Adult Education	1,382.6	-75.8	-5%
Bilingual and Immigrant Education	206.7	-33.2	-16%
Postsecondary Student Financial Assistance	7,618.0	-1,515.9	-20%
Higher Education	919.4	-103.3	-11%
Dept. of Housing and Urban Development[a]	24,425.9	-4,905.7	-20%
Selected Housing Programs	18,705.9	-4,473.1	-24%
Community Development Grants	4,600.0	-115.0	-3%
Homeless Assistance	1,120.0	-317.6	-28%

Dept. of Commerce[a]	454.7	-94.0	-21%
Information Infrastructure Grants	45.0	-24.0	-53%
Economic Development Administration	409.7	-69.9	-17%
National Science Foundation	3,360.5	-221.0	-7%
Corporation for National and Community Service	791.6	-205.7	-26%
National and Community Service (AmeriCorps, etc.)	577.0	-184.6	-32%
Domestic Volunteer Service (formerly ACTION)	214.6	-21.2	-10%
National Endowment for the Arts	162.4	-65.4	-40%
National Endowment for the Humanities	172.0	-64.8	-38%
Corporation for Public Broadcasting[b]	260.0	-71.3	-23%
Legal Services Corporation	400.0	-129.0	-32%
Community Development Financial Institutions	125.0	-81.1	-65%
Total	$73,023.4	-$8,537.3	-12%
Estimated Federal Support of Nonprofit Organizations through Programs Listed Above	$17,461.7	-$1,744.7	-10%

Source: Based on enacted FY 1996 appropriations laws and on authors' estimates of the percentage of federal program dollars flowing to nonprofit agencies. FY 1995 amounts incorporate rescissions in programs where reductions occurred.

a. Includes only programs listed below.
b. This agency is forward-funded. The figures in the table represent FY 1998 enacted levels compared to FY 1997 enacted level.

Table 3

Estimated Nonprofit Revenue from Federal Sources,
Estimated FY 1996 Revenue vs. Estimated FY 1995 Revenue
(In Billions of Constant 1995 Dollars)

Budget Function	Estimated FY 1995 Revenue	Estimated FY 1996 vs. FY 1995 Revenue	
		Amount	Percent
Education, Training, Employment, Social Services	$14.9	-$1.4	-9%
Community and Regional Development	0.7	0.0	+2%
Health[a]	114.4	0.1	0%
International Affairs	1.0	-0.1	-6%
Total	$131.0	-$1.3	-1%

Source: Authors' estimates based on FY 1996 amounts from U.S. House of Representatives, Committee on the Budget, "Concurrent Resolution on the Budget--Fiscal Year 1997," 104th Congress, 2d Session, Report 104-575; and FY 1995 amounts from U.S. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 1997, Historical Tables*. Conversion to constant 1995 dollars was accomplished by using the "Chained Gross Domestic Product (GDP) price index" for all programs except Medicare and Medicaid. For these two programs, the deflator that was used reflects projected baseline (i.e., "current services") spending and incorporates not only projected changes in prices but also expected changes in utilization and the size of the beneficiary population.

a. Includes health (function 550) and Medicare (570).

Table 4

Proposed Federal Spending in Budget Functions of Interest to Nonprofit Organizations, Congressional FY 1997 Budget Resolution and President Clinton's FY 1997 Budget vs. Actual FY 1995 Spending Levels (in Billions of Constant 1995 Dollars)

	FY 2002 Outlays: Proposed vs. Actual FY 1995				Cumulative Changes: Proposed FY 1997-2002 vs. Actual FY 1995	
	Congressional Budget Resolution		President Clinton			
Budget Function	Amount	Percent	Amount	Percent	Congress	President
Education, Training, Employment, Social Services	-$13.1	-24%	-$2.6	-5%	-$66.1	-$22.7
Community and Regional Development	-5.4	-51%	-3.9	-37%	-20.8	-13.3
Health[a]	-47.3	-17%	-36.7	-13%	-149.3	-112.9
Income Assistance	12.3	6%	13.5	6%	52.1	51.8
International Affairs	-7.4	-45%	-4.4	-27%	-32.1	-23.0
Total Above	-$60.9	-11%	-$34.0	-6%	-$216.2	-$120.1
Total, excluding Income Assistance	-$73.2	-21%	-$47.5	-13%	-$268.3	-$171.9

Source: U.S. House of Representatives, "Conference Report on House Concurrent Resolution 178," 104th Congress, 2d Session, Report 104-612; and Office of Management and Budget, *Budget of the United States Government: Fiscal Year 1997, Historical Tables*. Conversion to constant 1995 dollars was accomplished by using the "Chained Gross Domestic Product (GDP) price index" for all programs except Medicare and Medicaid. For these two programs, the deflator that was used reflects projected baseline (*i.e.*, "current services") spending and incorporates not only projected changes in prices but also expected changes in utilization and the size of the beneficiary population.

a. Includes health (function 550) and Medicare (570).

Table 5

Estimated Nonprofit Revenues from Federal Sources,
Projected Revenues under the Congressional FY 1997 Budget Resolution and
President Clinton's FY 1997 Budget
vs. Estimated FY 1995 Revenues
(in Billions of Constant 1995 Dollars)

	FY 2002 Federal Support of Nonprofits: Proposed vs. FY 1995 Levels				Cumulative Changes: Proposed FY 1997-2002 vs. FY 1995	
	Congressional Budget Resolution		President Clinton			
Budget Function	Amount	Percent	Amount	Percent	Congress	President
Education, Training, Employment, Social Services	-$3.6	-24%	-$0.7	-5%	-$18.1	-$6.2
Community and Regional Development	-0.4	-51%	-0.3	-37%	-1.4	-0.9
Health[a]	-19.7	-17%	-15.0	-13%	-67.6	-56.8
International Affairs	-0.5	-45%	-0.3	-27%	-2.0	-1.4
Total	-$24.1	-18%	-$16.3	-12%	-$89.1	-$65.4

Source: U.S. House of Representatives, "Conference Report on House Concurrent Resolution 178," 104th Congress, 2d Session, Report 104-612; Office of Management and Budget, *Budget of the United States Government: Fiscal Year 1997, Historical Tables*; and authors' estimates. Conversion to constant 1995 dollars was accomplished by using the "Chained Gross Domestic Product (GDP) price index" for all programs except Medicare and Medicaid. For these two programs, the deflator that was used reflects projected baseline (i.e., "current services") spending and incorporates not only projected changes in prices but also expected changes in utilization and the size of the beneficiary population.

a. Includes health (function 550) and Medicare (570).

Table 6

Changes in Private Giving Needed to Offset
Projected Federal Budget Cuts in Budget Functions of Interest to Nonprofit Organizations
and Projected Cuts in Federal Support of Nonprofit Organizations,
Assuming Implementation of the Congressional FY 1997 Budget Resolution
(in Billions of Constant 1995 Dollars)

Year	Projected Increase in Private Giving[a]	Projected Cuts in Budget Functions of Concern to Nonprofits	Percent Added Increase in Private Giving Needed to Offset Budget Cuts	Projected Cuts in Nonprofit Revenues from Federal Sources	Percent Added Increase in Private Giving Needed to Offset Nonprofit Revenue Losses
1996	+$2.3	-$2.7	6%	-$1.3	na
1997	+2.4	-8.1	13%	-4.6	9%
1998	+2.5	-22.2	30%	-8.1	13%
1999	+2.6	-32.9	41%	-12.4	17%
2000	+2.6	-39.3	48%	-15.8	21%
2001	+2.7	-52.9	61%	-19.5	25%
2002	+2.8	-60.9	68%	-24.1	29%

Source: U.S. House of Representatives, "Conference Report on House Concurrent Resolution 178," 104th Congress, 2d Session, Report 104-612; Office of Management and Budget, *Budget of the United States Government: Fiscal Year 1997, Historical Tables*; and authors' estimates. Conversion to constant 1995 dollars was accomplished by using the "Chained Gross Domestic Product (GDP) price index" for all programs except Medicare and Medicaid. For these two programs, the deflator that was used reflects projected baseline (i.e., "current services") spending and incorporates not only projected changes in prices but also expected changes in utilization and the size of the beneficiary population.

a. Projected increases in private giving assume a real annual growth rate of 3 percent per year, starting from $78.3 billion in 1995. The baseline 1995 estimate is derived from computations by Independent Sector. This giving analysis excludes giving for sacramental religious purposes.

NAADAC
National Association of Alcoholism
and Drug Abuse Counselors

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STATEMENT FOR THE RECORD

on behalf of
THE NATIONAL ASSOCIATION OF
ALCOHOLISM AND DRUG ABUSE COUNSELORS

on
H.R. 3467 - Saving Our Children:
The American Community Renewal Act of 1996

House Economic and Educational Opportunities Subcommittee on
Early Childhood, Youth and Families
and the
House Ways and Means Subcommittee on Human Resources
Hearing Held on July 30, 1996

On behalf of the National Association of Alcoholism and Drug Abuse Counselors (NAADAC), please accept the following comments regarding HR 3467, "The American Community Renewal Act of 1996." NAADAC, with more than 18,000 members, is the largest national organization representing the interests of alcoholism and drug abuse treatment and prevention professionals across the United States.

NAADAC opposes Title III of this bill which unnecessarily creates a controversy about treatment effectiveness by stating that "formal education for counselors ... may undermine the effectiveness of [treatment] programs." Education enhances treatment effectiveness. Those most aware of new treatment technologies and capabilities are better able to provide treatment for all patients.

The bill would require states to give credit for religious education equal to credit given for secular course work in drug treatment. Alcohol and drug counselors (ADCs) constitute the one group of professionals who specialize in the diagnosis, assessment and treatment of psychoactive disorders and other substance abuse/use/dependency issues. These counselors possess a constellation of knowledge that is unique to the alcoholism and drug abuse counseling profession. Religious education and training is not equivalent to this knowledge.

Under this bill, religious organizations could compel participation in religious practice, worship, and instruction. Forced participation for individuals who enter treatment programs is inappropriate and may be unethical. This legislation does not adequately safeguard patients' rights.

Religious organizations would not be required to comply with state laws regarding treatment certification or licensure. States have a need to ensure the public's safety by prohibiting incompetent treatment practices. NAADAC has been in the forefront of organizations helping to create state standards for licensure, programs of addictions studies, and a degree of professionalism equal to or surpassing that of other health specialties. This legislation reverses that effort and creates a distracting and unnecessary controversy.

NAADAC has attached two "Legislative Briefings" which detail our specific objections to HR 3467. We urge committee members to oppose HR 3467 and to work with NAADAC to bring appropriate, effective, and safe treatment resources to America's communities. If you have any questions regarding NAADAC or our position on this bill please contact Linda Kaplan, Executive Director, or Bill McColl, Director of Government Relations, at (703) 741-7686.

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NAADAC Legislative Briefing

June 10, 1996

HR 3467 - "Saving Our Children: The American Community Renewal Act of 1996"

Principal sponsors: Representatives J.C. Watts (R-OK), Representative James Talent (R-MO)

Purpose: "to increase job creation, small business expansion and formation, educational opportunities, and home ownership, and to foster moral renewal, in economically depressed areas by providing Federal tax incentives, regulatory reforms, school reform pilot projects, and home ownership incentives."

Of interest to NAADAC: NAADAC is concerned about provisions which suggest that the field of alcohol and drug treatment counseling is not a professional field and that formal education for counselors is detrimental to the practice of effective counseling. These provisions are contained in Title III -- Prevention and Treatment of Substance Abuse, Sec. 301 (pp. 132-143) of the bill which amends Title V of the Public Health Service Act (42 U.S.C. 290aa et. seq.). These concerns are:

1. Sec. 585. Educational Requirements for Personnel in Drug Treatment Programs (p.141). Sec. 585(a)(1) states that "formal education for counselors ... may undermine the effectiveness of [treatment] programs." This statement is incorrect. The most effective drug and alcohol treatment matches characteristics of the patient to treatment. Effective matching requires continuing education and knowledge of new treatment developments along with the ability to deliver different types of treatment to the patient. As treatment has grown more complex, the need for continuing education and formal education has also grown. Those most aware of new treatment technologies and capabilities are better able to provide treatment for all patients.

2. Sec. 585(a)(2) states that formal education "may hinder or prevent the provision of needed drug treatment services." There is no higher goal for NAADAC than ensuring access to effective treatment services. Establishing standards and requirements for the administration of treatment simply ensures that treatment delivered to patients is effective, it does not deny access to those services. As with other health professionals dealing with a disease, standards are needed for treatment professionals.

3. Sec. 585(b)(1) says that States which require formal education to deliver treatment services "shall give credit for religious education and training equivalent to credit given for secular course work in drug treatment ..." Alcohol and drug counselors (ADCs) constitute the one group of professionals who specialize in the diagnosis, assessment and treatment of psychoactive disorders and other substance abuse/use/dependency. These counselors possess a constellation of

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Linda Kaplan, MA, CAE *Executive Director*

knowledge that is unique to the alcoholism and drug abuse counseling profession, and distinguishes ADCs from other related professions and specialties. Religious education and training is not equivalent to this knowledge.

4. Sec. 585(b)(2)(B) creates an exception requiring waiver of state established educational qualifications for treatment personnel if, among other requirements, "(I) the religious organization has a record of prior successful drug treatment for ... the preceding three years," ... "(iv) the State ... has failed to demonstrate empirically that the educational qualifications in question are necessary to the operation of a successful program." This legislation undermines a State's ability to protect the public by licensing and certifying qualified treatment providers. It imposes a mandate from the Federal government requiring the States to fund religious programs or face the costs of defending requirements which the State and local governments believe are necessary for protection of the public. States would therefore be required to conduct research without being provided the means to accomplish it. States are unlikely to have the resources to spend on a demanding empirical defense of their rule and consequently may relax treatment standards to allow unfit organizations to deliver treatment with federal funding.

5. Sec. 582 allows Federal funds to be awarded directly to religious facilities providing treatment services. Section 582(g)(2) allows a religious organization which receives such funds to require active participation in religious practice, worship and instruction. There is no requirement of notification that an individual who objects to program services be notified of the right to receive alternative services. Individuals who enter treatment programs are frequently in a vulnerable situation. Forced or coerced conversion is inappropriate and may be unethical. This legislation does not adequately ensure that treatment alternatives are available and is likely to be unconstitutional.

The bottom line: The field of alcohol and drug treatment has been dealt severe Federal appropriations cutbacks in the FY 1996 Center for Substance Abuse Treatment (CSAT) demonstration programs. Treatment capacity will suffer a de facto setback as these funds are removed. This legislation is guaranteed to create a Constitutional question and will prove to be a distraction to achieving effective treatment as questions are resolved about what organizations are entitled to federal funding. Already stretched treatment funding awards may be delayed for years as this question is resolved. Indeed there is no real question. Religious organizations are free to receive funds by creating a non-profit agency in compliance with state law.

Alcoholism and drug addiction are diseases requiring treatment consisting of spiritual, social, psychological and physical factors. This legislation over-emphasizes the spiritual dimension of treatment without providing adequate safeguards to ensure that all aspects of treatment are provided for. It undermines the state's ability to ensure public safety by enacting certification and licensure laws.

NAADAC has been in the forefront of organizations helping to create state standards for licensure, programs of addictions studies, and a degree of professionalism equal to or surpassing that of other health specialties. This legislation reverses that effort and creates a distracting and unnecessary controversy. Title III should be removed from this legislation.

NAADAC
National Association of Alcoholism
and Drug Abuse Counselors

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NAADAC Legislative Briefing

June 27, 1996

Constitutional Issue - Appropriation of Federal Funding to Sectarian Treatment Providers

Legislation: Various amendments, usually referred to as "Charitable Choice" provisions, offered by Senator John Ashcroft (R-MO) and the "American Community Renewal Act of 1996" offered by Representatives J. C. Watts (R-OK) and James Talent (R-MO). Senator Ashcroft has placed a hold on reauthorization of the Substance Abuse and Mental Health Services Administration (SAMHSA) in order to force the Senate to consider this amendment.

Of interest to NAADAC: NAADAC is concerned that legislation which seeks to allow religious providers of alcohol and drug treatment to receive federal funding will damage the alcohol and drug treatment profession and hurt consumers' access to professional treatment.

The alcohol and drug treatment profession is currently engaged in efforts in almost every state to create and reinforce standards of practice for alcohol and drug treatment. Just as states regulate doctors for competence, there is a specific body of knowledge, which properly understood allows treatment professionals to effectively relieve patients of complications from their addiction or alcoholism. For the states, the issue is one of public safety and protection of consumers from unethical and ineffective practices. NAADAC has been in the forefront of efforts to bring licensure and certification to the states.

This legislation is an abrupt change from the status quo. Currently, religiously affiliated organizations provide treatment in a professional manner. Under this new legislation, "pervasively sectarian" institutions such as houses of worship, would be permitted to provide government services for the first time. Religious treatment providers would claim exemption from state regulations, even where legislation explicitly attempts to subject religious providers to state legislation because the First Amendment of the U.S. Constitution prevents excessive government entanglement with religious institutions. This legislation would not allow the government to oversee the hiring practices of religious institutions even if complaints were made against the institution preventing the government from enforcing licensing and certification regulations with respect to religious providers.

The bottom line: Religious providers would not be required to hire certified or licensed competent treatment professionals. NAADAC strongly supports the requirement of individual certification for counselors operating in all treatment institutions. Such regulations establish an organized system which ensures that the delivery of this vital health care service is provided by trained and experienced professionals who have met rigorous educational and training requirements prior to serving in the sensitive position of Alcohol and Drug Counselors. Legislation which allows treatment to be provided without respect to minimal standards hurts the field of alcohol and drug addiction treatment along with the millions of people suffering from addiction, their families, employers and the communities in which they live.

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Testimony submitted by National Council of Jewish Women (NCJW) to Joint House Hearing on H.R. 3467

The National Council of Jewish Women (NCJW) opposes H.R. 3467, the "Saving Our Children: The American Community Renewal Act of 1996." This bill mandates that local communities provide private and religious school tuition vouchers to eligible low-income children in areas designated "renewal communities."

We believe that H.R. 3467 violates the First Amendment's principle of church-state separation. By allowing the federal government to fund religious schools, whether via the vouchers or "scholarships" described in the bill, H.R. 3467 unconstitutionally uses public funds to subsidize religious instruction and therefore advances sectarian missions. Any governmental regulation of such funds would constitute government intrusion into religious affairs.

Furthermore, the voucher mandate provision alone would cost taxpayers $5 billion, thereby weakening public schools by diverting limited resources to private and religious education. The bill further prohibits the Secretary of Education from exercising any direction or supervision of voucher schools and so would essentially constitute a $5 billion block grant to the states with no federal oversight by the Education Department.

Additionally, H.R. 3467 would allow schools that receive federal tax dollars to discriminate in the hiring of employees based on religion, gender and "moral behavior." Students, as well, would be subject to the qualifications specific to the private and religious schools to which they apply. The federal government would thus be sanctioning discrimination. Public schools are where students of all races, religions and nationalities learn the meaning of opportunity, equality and democracy.

Title III of this bill would change current law to permit any religious institution, including houses of worship, to use government funds for proselytizing. H.R. 3467 explicitly allows religious programs to require those seeking government funded substance abuse treatment "to actively participate in religious practice, worship, and instruction" and follow off-site rules of religious behavior. In addition to violating the Establishment Clause of the First Amendment, Title III would impose upon the religious liberty rights of treatment program beneficiaries.

In our National Resolutions, NCJW holds that "religious liberty and the separation of religion and state are constitutional principles which must be protected and preserved in our democratic society" and that quality public education must be provided for all,"utilizing public funds for public schools only." H.R. 3467 contradicts these principles that are cornerstones of our organization and of this nation.

The National Council of Jewish Women is a volunteer organization, inspired by Jewish values, that works through a program of research, education, advocacy and community service to improve the quality of life for women, children and families and strives to ensure individual rights and freedoms for all.

On behalf of the 90,000 members of NCJW, we thank you for the opportunity to submit written testimony on H.R. 3467.

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STATEMENT OF NATIONAL COUNCIL ON ALCOHOLISM & DRUG DEPENDENCE, INC.

The National Council on Alcoholism and Drug Dependence opposes HR 3467, the American Community Renewal Act of 1996, because Title III would reverse twenty-five years of progress in effectively treating individuals who suffer from alcoholism and other drug-related problems by allowing people with no training or education in the field to work as counselors.

The government cannot constitutionally compel religious organizations to conform to government criteria, including credentialing and licensing requirements, when making hiring decisions. Title III of HR 3467 would allow religious organizations to use taxpayer money to hire individuals as treatment counselors who have no experience in education or in treating alcoholism or other drug related problems. (Currently, religious organizations must establish separate "religiously-affiliated organizations," such as Catholic Charities, that can use federal money to provide programs. These programs must abide by state and local regulations that pertain to treatment services.) We oppose HR 3467 because to be effective, treatment must provided by knowledgeable, competent counselors.

We also oppose HR 3467 because Title III:

1) erroneously states that "establishing formal educational qualifications for counselors and other personnel in drug treatment programs may undermine the effectiveness of such programs."

In fact, educational and training requirements enhance the effectiveness of treatment. Over the last twenty-five years, we have advanced our knowledge of the diagnosis, assessment and treatment of psychoactive disorders and other substance use, abuse and dependency problems. Nationally certified and state licensed/certified treatment professionals are uniquely trained and qualified to provide treatment.

2) alleges that educational requirements for counselors and other personnel may hinder or prevent the provision of treatment services.

This is just not true. States have established standards and requirements for treatment to protect the public's safety, not to deny the provision of treatment. Educational requirements ensure that alcohol and drug counselors and other health professionals entrusted with patient care meet standards of competence.

3) requires states that impose formal educational qualifications for treatment providers to give credit for religious education equivalent to secular course work in drug treatment or any other secular subject of similar grade level or duration.

Religious education is not the equivalent of secular course work in addictions theory or application; therefore, it cannot be substituted.

4) explicitly preempts state law and constitutional provisions that are designed to protect the public safety through the regulation of treatment professionals and prohibit the government from entangling itself in the affairs of religious institutions.

States should be allowed to set standards for treatment providers and maintain the integrity of their constitutions.

Most treatment providers recognize the spirituality, along with social, psychological and physical factors, is a component of effective treatment. Anyone providing treatment services must be trained and prepared to deal with all of them.

NCADD provides education, information, help and hope in the fight against the chronic, often fatal disease of alcoholism and other drug addictions.

Founded in 1944, NCADD is a voluntary health organization with a nationwide network of Affiliates. NCADD advocates prevention, intervention, research and treatment and is dedicated to ridding the disease of its stigma and its sufferers from their denial and shame.

PEOPLE FOR THE AMERICAN WAY ACTION FUND

People For the American Way Action Fund (PFAWAF) is a national, non-partisan constitutional and civil liberties organization devoted to this country's heritage of tolerance, pluralism, and liberty. PFAWAF has over 300,000 members and activists across the nation committed to preserving and strengthening religious liberty in our communities as well as supporting and improving our public school system. PFAWAF opposes H.R. 3467, the "Saving Our Children: The American Community Renewal Act of 1996," because it exploits the poor and disadvantaged and seeks to advance a conservative social agenda that promotes the unconstitutional goals of government-sponsored religion, restriction of free expression, and government funding of parochial schools.

Under this legislation, in order for a community to be eligible for any renewal community benefits, the community must implement a school voucher program. The voucher program for elementary and secondary students would funnel five billion dollars in public funds to private and parochial schools over a seven-year period and would permit religious schools to receive taxpayer funds directly from the government in the form of scholarships for eligible low-income children. Such federal funding would thereby breach the constitutional wall of separation between church and state because parochial schools, by their very nature, are pervasively sectarian.

In addition, these religious schools would be entitled to require their employees and students to participate in religious instruction as well as abide by the tenets of the faith both in school and out of school. In fact, these schools would be allowed to discriminate on the basis of religion in their acceptance and hiring practices while receiving taxpayer money. Moreover, while this voucher program is said to place educational choice in the hands of poor parents, the

reality is that it would enhance the ability of private and religious schools to discriminate in their student admissions on any basis except race -- including discrimination on the basis of gender, religious belief, socio-economic status, behavioral problems, academic record, and physical ability. Thus, there is simply no assurance that the very children sought to be helped by the voucher program would in fact have the "opportunity" to attend the private schools of their "choice," and every reason to believe that private schools will not allow themselves to become the repository of "problem" or "disadvantaged" children.

There is no indication whether the $5 billion to fund this voucher program would come from an increase in taxes or whether the money would be siphoned off from the support for public education that is available to all children. Even if the money does not come directly from the appropriation for public education, when children use these vouchers to attend a private school, the public school that they leave would no longer receive funds for that student. Therefore, as enrollment in public schools drops, so would the money that public schools use to teach the children remaining. Due to the fact that there is neither enough money nor private school space available to accommodate all of our children, the vast majority of the more than 45 million children who attend public school in this country would be left to attend increasingly under-funded public schools. Indeed, most of the children in the 100 renewal communities would not be assisted by this program because of the limited funds and the unwillingness of some private schools to accept students with disabilities, behavioral problems, or different religious beliefs.

More importantly, school vouchers are not the answer to the educational problems that exist in our public school system. Diverting federal funds and focus away from public schools to

fund private school education would do nothing to address the critical need in public schools for more teachers, improved facilities, and better technology and training. To the contrary, reduced federal funding would only exacerbate these problems. Furthermore, school vouchers will not enhance competition among educational institutions. Diverting federal education money to private schools would not promote fair competition between public and private schools because private schools do not operate under the same constraints under which public schools must operate. Public schools are open to all children within a school district, including those with severe disabilities and other special problems, whereas private schools can "screen out" the children that will cost them more in financial resources and time.

Analysis of some pilot school voucher programs demonstrates the need to remain focused on improving the public school system. In Milwaukee, Wisconsin, where a voucher program has been in effect for approximately six years, only about half of the students eligible for vouchers have taken advantage of them. Approximately one third of the voucher students returned to the Milwaukee public schools after the first year of the program, and 40 percent returned after the second year. In addition, only half of the schools eligible to accept voucher students have actually accepted such children. Academic results in Milwaukee since the voucher program began have been mixed. Second year test scores dropped "considerably" in reading; math results remained the same.[1] The experience of Milwaukee underscores how school voucher programs are not the answer to criticisms of our public school system.

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[1] National Education Association, Center for the Preservation of Public Education, Tuition Vouchers: Myths and Realities (1993) at 1-2; and E. Doerr, A.J. Menendez and J.M. Swomley, The Case Against School Vouchers (1995) at 47-8.

H.R. 3467 also would enable religious organizations to be funded by public drug and alcohol treatment funds. This legislation would amend the federal Substance Abuse and Mental Health Services Administration (SAMHSA) statute to allow religious organizations to access directly federal funds appropriated for drug and alcohol treatment programs. Religious organizations would no longer be required to establish the separate, religious-affiliated charities that have historically provided treatment to the needy, such as Catholic Charities. Instead, the money would go directly to any church, synagogue, mosque, or other holy place that applied. In addition, the new guidelines of SAMHSA, would authorize religious organizations that provide drug and alcohol treatment services with taxpayer money to require their clients to actively participate in religious services and instruction, and abide by the tenets of the faith, in order to receive treatment. Further, this legislation does not require religious organizations to provide notice to the beneficiaries of these programs of their right to request treatment at a different, non-religious treatment program. Such practices would obviously violate the constitutional separation between church and state and the religious liberty rights of program beneficiaries who are being treated in a program using taxpayer money.

In addition to proselytizing with taxpayer money, under the new guidelines proposed in H.R. 3467, participating religious organizations would be allowed to discriminate against employees, although the employees would be paid with government funds. This legislation would enable these religious organizations to refuse to hire otherwise qualified persons on the basis of their religious beliefs, and would allow these organizations to require their employees to follow the rules and beliefs of the religion while at work and in the employees' private lives. Although religious institutions are permitted to discriminate in employment based on religion

using their **private** money, **taxpayer funds** should not and cannot properly be used to fund religious discrimination.

Title II of this bill unnecessarily burdens non-profit agencies that serve the poor. H.R. 3467 establishes a tax credit for charitable donations made to non-profit organizations that directly aid the poor. However, this tax credit would not apply to donations made to any organization that engages in any type of public policy activity such as lobbying, voter registration, public policy advocacy, public policy research, or litigation on behalf of its clients. Such punitive restrictions would force charities to give up their First Amendment rights -- to the great detriment of their clients -- in order for their donors to qualify for the new tax credit.

There is no public policy justification for such a restriction. On a practical level, placing restrictions on so-called public policy advocacy would limit a charity's ability to address public policies that might detrimentally affect the poor. Further, this restriction would most likely restrict a charity from meeting with a school board, a town council, or the local department of social services on issues and programs that would directly impact on that charity's clients. Placing restrictions on how charities use their private donations to serve their clients would be an unprecedented intrusion by the government at a time when Congress is seeking to achieve less federal control over non-governmental programs.

In addition to silencing charities, this provision of H.R. 3467 would place a tremendous paperwork burden on participating charities. Non-profit organizations would be required to keep detailed records and means tests on their clients in order for donors to receive the new tax credit. The time and energy spent on managing the resulting paperwork explosion would prevent many

organizations from fully meeting the needs of their impoverished clients. Furthermore, large numbers of poor people would be unable to provide all of the required proof of poverty and would therefore give up on trying to access the services they so desperately need.

This legislation also would further entangle government in church affairs. Religious-affiliated charities that currently receive federal funding, such as Catholic Charities, are accustomed to federal audits of the assistance programs that they run. However, it would seem that to be eligible under the requirements of this new tax credit, more churches, synagogues, and mosques would have to adopt the record keeping and means testing of government funded programs that would result in intrusive reviews by the federal government. Clearly, this would mean a further weakening of the constitutional separation between church and state.

H.R. 3467 would undermine the traditional control that state and local governments exercise over the businesses operated, and services provided within their jurisdiction. For example, under the proposed changes to SAMHSA, religious organizations would be entitled to request a waiver of State and local education requirements. In addition, this legislation would forbid state and local governments, most of which are popularly elected, from exercising direction and control over the private schools that would be receiving federal funding. Furthermore, this legislation would require the renewal communities to abandon the zoning and licensing laws that have protected the workers and children in these communities from health hazards and incompetence. Thus, this legislation would take traditional local concerns out of the hands of state and locally elected officials.

In conclusion, given the problems that exist in our country such as decaying urban cente and rural poverty, efforts undoubtedly need to be made if we expect to rejuvenate impoverished communities and assist the disadvantaged who live in such conditions. However, such efforts should preclude attempts to promote an ideological social agenda bent on undermining our constitutionally protected freedoms and liberties. The federal government should not inhibit efforts to "renew" communities by including unconstitutional, unnecessary, and unwise provisions that, in the end, would harm rather than help the very people that the proponents of this bill claim to want to help.

Thank you for the opportunity to share with you our concerns about H.R. 3467, "Saving Our Children: The American Community Renewal Act of 1996."

104TH CONGRESS
2D SESSION

H. R. 3467

To amend the Internal Revenue Code of 1986 to allow the designation of renewal communities, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 16, 1996

Mr. WATTS of Oklahoma (for himself, Mr. TALENT, Mrs. MYRICK, Mr. ENGLISH of Pennsylvania, Mr. WELDON of Florida, Mr. KNOLLENBERG, Mr. KOLBE, Mr. RIGGS, Mr. CHABOT, Mr. CHAMBLISS, Mr. COBURN, Mr. FLANAGAN, Mr. GUTKNECHT, Mr. LARGENT, Mr. LATOURETTE, Mr. NORWOOD, Mrs. SEASTRAND, Mr. SOUDER, Mr. STOCKMAN, Mr. THORNBERRY, Mr. WELLER, Mr. WICKER, Mr. BAKER of Louisiana, Mr. BALLENGER, Mr. BARTLETT of Maryland, Mr. BARTON of Texas, Mr. BLUTE, Mr. BURTON of Indiana, Mr. CALVERT, Mr. DOOLITTLE, Mr. DORNAN, Mr. EMERSON, Mr. HASTERT, Mr. HAYES, Mr. HOEKSTRA, Mr. HOKE, Mr. HUTCHINSON, Mr. KING, Mr. KINGSTON, Mr. LEWIS of Kentucky, Mr. LINDER, Mr. MCCREERY, Mr. SHAYS, Mr. WAMP, Mr. MCINTOSH, Mr. DELAY, and Mr. TAYLOR of North Carolina) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committees on Economic and Educational Opportunities, Banking and Financial Services, and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To amend the Internal Revenue Code of 1986 to allow the designation of renewal communities, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

2 (a) SHORT TITLE.—This Act may be cited as "Sav-
3 ing Our Children: The American Community Renewal Act
4 of 1996".

5 (b) TABLE OF CONTENTS.—The table of contents for
6 this Act is as follows:

Sec. 1. Short title and table of contents.
Sec. 2. Findings and purpose.

TITLE I—DESIGNATION AND TREATMENT OF RENEWAL COMMUNITIES

Sec. 101. Short title.
Sec. 102. Statement of purpose.
Sec. 103. Designation and treatment of renewal communities.
Sec. 104. Evaluation and reporting requirements.
Sec. 105. Interaction with other Federal programs.
Sec. 106. Deduction for contributions to family development accounts allowable whether or not taxpayer itemizes.
Sec. 107. Allowance of commercial revitalization credit.
Sec. 108. Conforming and clerical amendments.

TITLE II—ADDITIONAL TAX PROVISIONS

Sec. 201. Work opportunity tax credit.
Sec. 202. Credit for certain charitable contributions.
Sec. 203. Deduction for charitable contributions to be allowed to individuals who do not itemize deductions.

TITLE III—PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

Sec. 301. Prevention and treatment of substance abuse; services provided through religious organizations.

TITLE IV—LOW-INCOME EDUCATIONAL OPPORTUNITY SCHOLARSHIP PROGRAM

Sec. 401. Short title.
Sec. 402. Findings; precedents.
Sec. 403. Purposes.
Sec. 404. Plan submission; requirements.
Sec. 405. Uses of funds.
Sec. 406. Scholarship program.
Sec. 407. Allocation of funds among renewal communities.
Sec. 408. Parental right of choice in education.
Sec. 409. Eligible schools.
Sec. 410. Administration of program and treatment of funds.
Sec. 411. Contributions to scholarship program from other sources.
Sec. 412. Use of excess funds for additional educational purposes.

Sec. 413. Evaluation.
Sec. 414. Effect on other programs.
Sec. 415. Judicial review.
Sec. 416. Definitions.
Sec. 417. Authorization of appropriations.

TITLE V—ADDITIONAL INCENTIVES FOR RENEWAL COMMUNITIES

Sec. 501. CRA credit for investments in community development organizations located in renewal communities.
Sec. 502. FDA user fee amendment.

1 **SEC. 2. FINDINGS AND PURPOSE.**

2 (a) FINDINGS.—The Congress makes the following
3 findings:

4 (1) Many of the Nation's urban centers are
5 places with high levels of poverty, high rates of wel-
6 fare dependency, high crime rates, poor schools, and
7 joblessness.

8 (2) Federal tax incentives and regulatory re-
9 forms can encourage economic growth, job creation,
10 and small business formation in many urban centers.

11 (3) Encouraging private sector investment in
12 America's economically distressed urban and rural
13 areas is essential to breaking the cycle of poverty
14 and the related ills of crime, drug abuse, illiteracy,
15 welfare dependency, and unemployment.

16 (b) PURPOSE.—The purpose of this Act is to increase
17 job creation, small business expansion and formation, edu-
18 cational opportunities, and homeownership, and to foster
19 moral renewal, in economically depressed areas by provid-

1 ing Federal tax incentives, regulatory reforms, school re-
2 form pilot projects, and homeownership incentives.

3 TITLE I—DESIGNATION AND 4 TREATMENT OF RENEWAL 5 COMMUNITIES

6 **SEC. 101. SHORT TITLE.**

7 This title may be cited as the "Renewing American
8 Communities Act of 1996".

9 **SEC. 102. STATEMENT OF PURPOSE.**

10 It is the purpose of this title to provide for the estab-
11 lishment of renewal communities in order to stimulate the
12 creation of new jobs, particularly for disadvantaged work-
13 ers and long-term unemployed individuals, and to promote
14 revitalization of economically distressed areas primarily by
15 providing or encouraging—

16 (1) tax relief at the Federal, State, and local
17 levels;

18 (2) regulatory relief at the Federal, State, and
19 local levels; and

20 (3) improved local services and an increase in
21 the economic stake of renewal community residents
22 in their own community and its development, par-
23 ticularly through the increased involvement of pri-
24 vate, local, and neighborhood organizations.

1 **SEC. 103. DESIGNATION AND TREATMENT OF RENEWAL**
2 **COMMUNITIES.**

3 (a) IN GENERAL.—Chapter 1 of the Internal Reve-
4 nue Code of 1986 is amended by adding at the end the
5 following new subchapter:

6 **"Subchapter W—Renewal Communities**

"Part I. Designation.
"Part II. Renewal community capital gain and stock.
"Part III. Family development accounts.
"Part IV. Additional Incentives.

7 **"PART I—DESIGNATION**

"Sec. 1400. Designation of Renewal Communities.

8 **"SEC. 1400. DESIGNATION OF RENEWAL COMMUNITIES.**

9 "(a) DESIGNATION.—

10 "(1) DEFINITIONS.—For purposes of this title,
11 the term 'renewal community' means any area—

12 "(A) which is nominated by one or more
13 local governments and the State or States in
14 which it is located for designation as a renewal
15 community (hereinafter in this section referred
16 to as a 'nominated area'), and

17 "(B) which the Secretary of Housing and
18 Urban Development, after consultation with—

19 "(i) the Secretaries of Agriculture,
20 Commerce, Labor, and the Treasury; the
21 Director of the Office of Management and

1 Budget; and the Administrator of the
2 Small Business Administration, and
3 "(ii) in the case of an area on an In-
4 dian reservation, the Secretary of the Inte-
5 rior,
6 designates as a renewal community.
7 "(2) NUMBER OF DESIGNATIONS.—
8 "(A) IN GENERAL.—The Secretary of
9 Housing and Urban Development may des-
10 ignate not more than 100 nominated areas as
11 renewal communities.
12 "(B) MINIMUM DESIGNATION IN RURAL
13 AREAS.—Of the areas designated under para-
14 graph (1), at least 10 percent must be areas—
15 "(i) which are within a local govern-
16 ment jurisdiction or jurisdictions with a
17 population of less than 50,000 (as deter-
18 mined under the most recent census data
19 available),
20 "(ii) which are outside of a metropoli-
21 tan statistical area (within the meaning of
22 section 143(k)(2)(B)), or
23 "(iii) which are determined by the
24 Secretary of Housing and Urban Develop-

1 ment, after consultation with the Secretary
2 of Commerce, to be rural areas.
3 "(C) ADDITIONAL DESIGNATIONS TO RE-
4 PLACE REVOKED DESIGNATIONS.—
5 "(i) IN GENERAL.—The Secretary of
6 Housing and Urban Development may des-
7 ignate one additional area under subpara-
8 graph (A) to replace each area for which
9 the designation is revoked under subsection
10 (b)(2), but in no event may more than 100
11 areas designated under this subsection
12 bear designations as renewal communities
13 at any time.
14 "(ii) EXTENSION OF TIME LIMIT ON
15 DESIGNATIONS.—In the case of any des-
16 ignation made under this subparagraph,
17 paragraph (4)(B) shall be applied by sub-
18 stituting '36-month' for '24-month'.
19 "(3) AREAS DESIGNATED BASED SOLELY ON
20 DEGREE OF POVERTY, ETC.—
21 "(A) IN GENERAL.—Except as otherwise
22 provided in this section, the nominated areas
23 designated as renewal communities under this
24 subsection shall be those nominated areas with
25 the highest average ranking with respect to the

1 criteria described in subparagraphs (C), (D),
2 and (E) of subsection (c)(3). For purposes of
3 the preceding sentence, an area shall be ranked
4 within each such criterion on the basis of the
5 amount by which the area exceeds such cri-
6 terion, with the area which exceeds such cri-
7 terion by the greatest amount given the highest
8 ranking.

9 "(B) EXCEPTION WHERE INADEQUATE
10 COURSE OF ACTION, ETC.—An area shall not be
11 designated under subparagraph (A) if the Sec-
12 retary of Housing and Urban Development de-
13 termines that the course of action described in
14 subsection (d)(2) with respect to such area is
15 inadequate.

16 "(C) SEPARATE APPLICATION TO RURAL
17 AND OTHER AREAS.—Subparagraph (A) shall
18 be applied separately with respect to areas de-
19 scribed in paragraph (2)(B) and to other areas.
20 "(4) LIMITATION ON DESIGNATIONS.—

21 "(A) PUBLICATION OF REGULATIONS.—
22 The Secretary of Housing and Urban Develop-
23 ment shall prescribe by regulation no later than
24 4 months after the date of the enactment of

1 this section, after consultation with the officials
2 described in paragraph (1)(B)—
3 "(i) the procedures for nominating an
4 area under paragraph (1)(A),
5 "(ii) the parameters relating to the
6 size and population characteristics of a re-
7 newal community, and
8 "(iii) the manner in which nominated
9 areas will be evaluated based on the cri-
10 teria specified in subsection (d).
11 "(B) TIME LIMITATIONS.—The Secretary
12 of Housing and Urban Development may des-
13 ignate nominated areas as renewal communities
14 only during the 24-month period beginning on
15 the first day of the first month following the
16 month in which the regulations described in
17 subparagraph (A) are prescribed.
18 "(C) PROCEDURAL RULES.—The Secretary
19 of Housing and Urban Development shall not
20 make any designation of a nominated area as a
21 renewal community under paragraph (2) un-
22 less—
23 "(i) the local governments and the
24 State in which the nominated area is lo-
25 cated have the authority—

1 "(I) to nominate such area for
2 designation as a renewal community,
3 "(II) to make the State and local
4 commitments described in subsection
5 (d), and
6 "(III) to provide assurances sat-
7 isfactory to the Secretary of Housing
8 and Urban Development that such
9 commitments will be fulfilled,
10 "(ii) a nomination regarding such
11 area is submitted in such a manner and in
12 such form, and contains such information,
13 as the Secretary of Housing and Urban
14 Development shall by regulation prescribe,
15 and
16 "(iii) the Secretary of Housing and
17 Urban Development determines that any
18 information furnished is reasonably accu-
19 rate.
20 "(5) NOMINATION PROCESS FOR INDIAN RES-
21 ERVATIONS.—For purposes of this subchapter, in
22 the case of a nominated area on an Indian reserva-
23 tion, the reservation governing body (as determined
24 by the Secretary of the Interior) shall be treated as

1 being both the State and local governments with re-
2 spect to such area.
3 "(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
4 FECT.—
5 "(1) IN GENERAL.—Any designation of an area
6 as a renewal community shall remain in effect dur-
7 ing the period beginning on the date of the designa-
8 tion and ending on the earliest of—
9 "(A) December 31 of the 7th calendar year
10 following the calendar year in which such date
11 occurs,
12 "(B) the termination date designated by
13 the State and local governments in their nomi-
14 nation pursuant to subsection (a)(4)(C)(ii), or
15 "(C) the date the Secretary of Housing
16 and Urban Development revokes such designa-
17 tion under paragraph (2).
18 "(2) REVOCATION OF DESIGNATION.—The Sec-
19 retary of Housing and Urban Development may,
20 after—
21 "(A) consultation with the officials de-
22 scribed in subsection (a)(1)(B) (and the Sec-
23 retary of Education if notification required
24 under section 404 of the Low-Income Edu-

1 cational Opportunity Scholarship Act of 1996 is
2 received), and
3 "(B) a hearing on the record involving offi-
4 cials of the State or local government involved
5 (or both, if applicable),
6 revoke the designation of an area if the Secretary of
7 Housing and Urban Development determines that
8 the local government or State in which the area is
9 located is not complying substantially with the State
10 or local commitments, respectively, described in sub-
11 section (d).
12 "(c) AREA AND ELIGIBILITY REQUIREMENTS.—
13 "(1) IN GENERAL.—The Secretary of Housing
14 and Urban Development may designate any nomi-
15 nated area as a renewal community under subsection
16 (a) only if the area meets the requirements of para-
17 graphs (2) and (3) of this subsection.
18 "(2) AREA REQUIREMENTS.—A nominated area
19 meets the requirements of this paragraph if—
20 "(A) the area is within the jurisdiction of
21 a local government,
22 "(B) the boundary of the area is continu-
23 ous, and
24 "(C) the area—

1 (i) has a population, as determined by
2 the most recent census data available, of at
3 least—
4 "(I) 4,000 if any portion of such
5 area (other than a rural area de-
6 scribed in subsection (a)(2)(B)(i)) is
7 located within a metropolitan statis-
8 tical area (within the meaning of sec-
9 tion 143(k)(2)(B)) which has a popu-
10 lation of 50,000 or greater, or
11 "(II) 1,000 in any other case, or
12 "(ii) is entirely within an Indian res-
13 ervation (as determined by the Secretary of
14 the Interior).
15 "(3) ELIGIBILITY REQUIREMENTS.—A nomi-
16 nated area meets the requirements of this paragraph
17 if the State and the local governments in which it
18 is located certify (and the Secretary of Housing and
19 Urban Development, after such review of supporting
20 data as he deems appropriate, accepts such certifi-
21 cation) that—
22 "(A) the area is one of pervasive poverty,
23 unemployment, and general distress,
24 "(B) the area is located wholly within the
25 jurisdiction of a local government which is eligi-

1 ble for Federal assistance under section 119 of
2 the Housing and Community Development Act
3 of 1974, as in effect on the date of the enact-
4 ment of this section,
5 "(C) the unemployment rate in the area,
6 as determined by the appropriate available
7 data, was at least 1½ times the national unem-
8 ployment rate for the period to which such data
9 relate,
10 "(D) the poverty rate (as determined by
11 the most recent census data available) for each
12 population census tract (or where not tracted,
13 the equivalent county division as defined by the
14 Bureau of the Census for the purpose of defin-
15 ing poverty areas) within the area was at least
16 20 percent for the period to which such data re-
17 late, and
18 "(E) at least 70 percent of the households
19 living in the area have incomes below 80 per-
20 cent of the median income of households within
21 the jurisdiction of the local government (deter-
22 mined in the same manner as under section
23 119(b)(2) of the Housing and Community De-
24 velopment Act of 1974).

1 "(d) REQUIRED STATE AND LOCAL COMMIT-
2 MENTS.—
3 "(1) IN GENERAL.—The Secretary of Housing
4 and Urban Development may designate any nomi-
5 nated area as a renewal community under subsection
6 (a) only if—
7 "(A) the local government and the State in
8 which the area is located agree in writing that,
9 during any period during which the area is a
10 renewal community, such governments will—
11 "(i) follow a specified course of action
12 which meets the requirements of para-
13 graph (2) and is designed to reduce the
14 various burdens borne by employers or em-
15 ployees in such area, and
16 "(ii) comply with the requirements of
17 the Low-Income Educational Opportunity
18 Scholarship Act of 1996, and
19 "(B) the economic growth promotion re-
20 quirements of paragraph (3) are met.
21 "(2) COURSE OF ACTION.—
22 "(A) IN GENERAL.—A course of action
23 meets the requirements of this paragraph if
24 such course of action is a written document,
25 signed by a State (or local government) and

1 neighborhood organizations, which evidences a
2 partnership between such State or government
3 and community-based organizations and which
4 commits each signatory to specific and measur-
5 able goals, actions, and timetables. Such course
6 of action shall include at least five of the follow-
7 ing:

8 "(i) A reduction of tax rates or fees
9 applying within the renewal community.

10 "(ii) An increase in the level of effi-
11 ciency of local services within the renewal
12 community.

13 "(iii) Crime reduction strategies, such
14 as crime prevention (including the provi-
15 sion of such services by nongovernmental
16 entities).

17 "(iv) Actions to reduce, remove, sim-
18 plify, or streamline governmental require-
19 ments applying within the renewal commu-
20 nity.

21 "(v) Involvement in the program by
22 private entities, organizations, neighbor-
23 hood organizations, and community
24 groups, particularly those in the renewal
25 community, including a commitment from

1 such private entities to provide jobs and
2 job training for, and technical, financial, or
3 other assistance to, employers, employees,
4 and residents from the renewal community.
5 "(vi) State or local income tax bene-
6 fits for fees paid for services performed by
7 a nongovernmental entity which were for-
8 merly performed by a governmental entity.
9 "(vii) The gift (or sale at below fair
10 market value) of surplus realty (such as
11 land, homes, and commercial or industrial
12 structures) in the renewal community to
13 neighborhood organizations, community de-
14 velopment corporations, or private compa-
15 nies.
16 "(B) RECOGNITION OF PAST EFFORTS.—
17 For purposes of this section, in evaluating the
18 course of action agreed to by any State or local
19 government, the Secretary of Housing and
20 Urban Development shall take into account the
21 past efforts of such State or local government
22 in reducing the various burdens borne by em-
23 ployers and employees in the area involved.
24 "(3) ECONOMIC GROWTH PROMOTION REQUIRE-
25 MENTS.—The economic growth promotion require-

1 ments of this paragraph are met with respect to a
2 nominated area if the local government and the
3 State in which such area is located certify in writing
4 that such government and State, respectively, have
5 repealed or otherwise will not enforce within the
6 area, if such area is designated as a renewal commu-
7 nity—
8 (A) licensing requirements for occupations
9 that do not ordinarily require a professional de-
10 gree,
11 (B) zoning restrictions on home-based
12 businesses which do not create a public nui-
13 sance,
14 (C) permit requirements for street vendors
15 who do not create a public nuisance,
16 (D) zoning or other restrictions that im-
17 pede the formation of schools or child care cen-
18 ters, and
19 (E) franchises or other restrictions on
20 competition for businesses providing public
21 services, including but not limited to taxicabs,
22 jitneys, cable television, or trash hauling,
23 except to the extent that such regulation of busi-
24 nesses and occupations is necessary for and well-tai-
25 lored to the protection of health and safety.

1 "(e) SPECIAL RULES FOR EMPOWERMENT ZONES
2 AND ENTERPRISE COMMUNITIES DESIGNATED AS RE-
3 NEWAL COMMUNITIES.—
4 "(1) IN GENERAL.—Any empowerment zone or
5 enterprise community which is designated as a re-
6 newal community under this section shall be treated
7 as if its designation as an empowerment zone or en-
8 terprise community ended (except as provided in
9 paragraph (2)) on the date of such designation as a
10 renewal community.
11 "(2) ENTERPRISE ZONE FACILITY BONDS.—In
12 the case of an empowerment zone or enterprise com-
13 munity described in paragraph (1), designation as
14 an empowerment zone or enterprise community shall
15 be treated as ended, for purposes of applying section
16 1394, with respect to obligations issued after the
17 date of designation as a renewal community, except
18 that designation as an empowerment zone or enter-
19 prise community shall not be treated as ended with
20 respect to any obligation (or series of obligations) is-
21 sued to refund an obligation issued before such date,
22 if the refunding obligation meets the requirements of
23 subclauses (I), (II), and (III) of section
24 144(a)(12)(A)(ii).

1 "(f) DEFINITIONS.—For purposes of this sub-
2 chapter—
3 "(1) GOVERNMENTS.—If more than one govern-
4 ment seeks to nominate an area as a renewal com-
5 munity, any reference to, or requirement of, this sec-
6 tion shall apply to all such governments.
7 "(2) STATE.—The term 'State' includes Puerto
8 Rico, the Virgin Islands of the United States, Guam,
9 American Samoa, the Northern Mariana Islands,
10 and any other possession of the United States.
11 "(3) LOCAL GOVERNMENT.—The term 'local
12 government' means—
13 "(A) any county, city, town, township, par-
14 ish, village, or other general purpose political
15 subdivision of a State,
16 "(B) any combination of political subdivi-
17 sions described in subparagraph (A) recognized
18 by the Secretary of Housing and Urban Devel-
19 opment, and
20 "(C) the District of Columbia.
21 **"PART II—RENEWAL COMMUNITY CAPITAL GAIN**
22 **AND STOCK**

"Sec. 1400A. Renewal community capital gain.
"Sec. 1400B. Renewal community stock.
"Sec. 1400C. Renewal community business defined.

1 **"SEC. 1400A. RENEWAL COMMUNITY CAPITAL GAIN.**

2 "(a) GENERAL RULE.—Gross income does not in-
3 clude any qualified capital gain recognized on the sale or
4 exchange of a qualified community asset held for more
5 than 5 years.

6 "(b) QUALIFIED COMMUNITY ASSET.—For purposes
7 of this section—

8 "(1) IN GENERAL.—The term 'qualified com-
9 munity asset' means—

10 "(A) any qualified community stock,

11 "(B) any qualified community business
12 property, and

13 "(C) any qualified community partnership
14 interest.

15 "(2) QUALIFIED COMMUNITY STOCK.—

16 "(A) IN GENERAL.—Except as provided in
17 subparagraph (B), the term 'qualified commu-
18 nity stock' means any stock in a domestic cor-
19 poration if—

20 "(i) such stock is acquired by the tax-
21 payer on original issue from the corpora-
22 tion solely in exchange for cash,

23 "(ii) as of the time such stock was is-
24 sued, such corporation was a renewal com-
25 munity business (or, in the case of a new
26 corporation, such corporation was being or-

1 ganized for purposes of being a renewal
2 community business), and
3 "(iii) during substantially all of the
4 taxpayer's holding period for such stock,
5 such corporation qualified as a renewal
6 community business.
7 "(B) EXCLUSION OF STOCK FOR WHICH
8 DEDUCTION UNDER SECTION 1400B AL-
9 LOWED.—The term 'qualified community stock'
10 shall not include any stock the basis of which
11 is reduced under section 1400B.
12 "(C) REDEMPTIONS.—The term 'qualified
13 community stock' shall not include any stock
14 acquired from a corporation which made a sub-
15 stantial stock redemption or distribution (with-
16 out a bona fide business purpose therefor) in an
17 attempt to avoid the purposes of this section.
18 "(3) QUALIFIED COMMUNITY BUSINESS PROP-
19 ERTY.—
20 "(A) IN GENERAL.—The term 'qualified
21 community business property' means tangible
22 property if—
23 "(i) such property was acquired by
24 the taxpayer by purchase (as defined in
25 section 179(d)(2)) after the date on which

1 the designation of the renewal community
2 took effect,
3 "(ii) the original use of such property
4 in the renewal community commences with
5 the taxpayer, and
6 "(iii) during substantially all of the
7 taxpayer's holding period for such prop-
8 erty, substantially all of the use of such
9 property was in a renewal community busi-
10 ness of the taxpayer.
11 "(B) SPECIAL RULE FOR SUBSTANTIAL IM-
12 PROVEMENTS.—
13 "(i) IN GENERAL.—The requirements
14 of clauses (i) and (ii) of subparagraph (A)
15 shall be treated as satisfied with respect
16 to—
17 "(I) property which is substan-
18 tially improved by the taxpayer, and
19 "(II) any land on which such
20 property is located.
21 "(ii) SUBSTANTIAL IMPROVEMENT.—
22 For purposes of clause (i), property shall
23 be treated as substantially improved by the
24 taxpayer only if, during any 24-month pe-
25 riod beginning after the date on which the

1 designation of the renewal community took
2 effect, additions to basis with respect to
3 such property in the hands of the taxpayer
4 exceed the greater of—
5 "(I) an amount equal to the ad-
6 justed basis at the beginning of such
7 24-month period in the hands of the
8 taxpayer, or
9 "(II) $5,000.
10 "(C) LIMITATION ON LAND.—The term
11 'qualified community business property' shall
12 not include land which is not an integral part
13 of a renewal community business.
14 "(4) QUALIFIED COMMUNITY PARTNERSHIP IN-
15 TEREST.—The term 'qualified community partner-
16 ship interest' means any interest in a partnership
17 if—
18 "(A) such interest is acquired by the tax-
19 payer from the partnership solely in exchange
20 for cash,
21 "(B) as of the time such interest was ac-
22 quired, such partnership was a renewal commu-
23 nity business (or, in the case of a new partner-
24 ship, such partnership was being organized for

1 purposes of being a renewal community busi-
2 ness), and
3 "(C) during substantially all of the tax-
4 payer's holding period for such interest, such
5 partnership qualified as a renewal community
6 business.
7 A rule similar to the rule of paragraph (2)(C) shall
8 apply for purposes of this paragraph.
9 "(5) TREATMENT OF SUBSEQUENT PUR-
10 CHASERS.—The term 'qualified community asset' in-
11 cludes any property which would be a qualified com-
12 munity asset but for paragraph (2)(A)(i), (3)(A)(ii),
13 or (4)(A) in the hands of the taxpayer if such prop-
14 erty was a qualified community asset in the hands
15 of all prior holders.
16 "(6) 10-YEAR SAFE HARBOR.—If any property
17 ceases to be a qualified community asset by reason
18 of paragraph (2)(A)(iii), (3)(A)(iii), or (4)(C) after
19 the 10-year period beginning on the date the tax-
20 payer acquired such property, such property shall
21 continue to be treated as meeting the requirements
22 of such paragraph; except that the amount of gain
23 to which subsection (a) applies on any sale or ex-
24 change of such property shall not exceed the amount

1 which would be qualified capital gain had such prop-
2 erty been sold on the date of such cessation.
3 "(7) TREATMENT OF COMMUNITY DESIGNATION
4 TERMINATIONS.—The termination of any designa-
5 tion of an area as a renewal community shall be dis-
6 regarded for purposes of determining whether any
7 property is a qualified community asset.
8 "(c) OTHER DEFINITIONS AND SPECIAL RULES.—
9 For purposes of this section—
10 "(1) QUALIFIED CAPITAL GAIN.—Except as
11 otherwise provided in this subsection, the term
12 'qualified capital gain' means any long-term capital
13 gain recognized on the sale or exchange of a quali-
14 fied community asset held for more than 5 years
15 (determined without regard to any period before the
16 designation of the renewal community).
17 "(2) CERTAIN GAIN ON REAL PROPERTY NOT
18 QUALIFIED.—The term 'qualified capital gain' shall
19 not include any gain which would be treated as ordi-
20 nary income under section 1250 if section 1250 ap-
21 plied to all depreciation rather than the additional
22 depreciation.
23 "(3) GAIN ATTRIBUTABLE TO PERIODS AFTER
24 TERMINATION OF COMMUNITY DESIGNATION NOT
25 QUALIFIED.—The term 'qualified capital gain' shall

1 not include any gain attributable to periods after the
2 termination of any designation of an area as a re-
3 newal community.
4 "(4) RELATED PARTY TRANSACTIONS.—The
5 term 'qualified capital gain' shall not include any
6 gain attributable, directly or indirectly, in whole or
7 in part, to a transaction with a related person. For
8 purposes of this paragraph, persons are related to
9 each other if such persons are described in section
10 267(b) or 707(b)(1).
11 "(d) TREATMENT OF PASS-THRU ENTITIES.—
12 "(1) SALES AND EXCHANGES.—Gain on the
13 sale or exchange of an interest in a pass-thru entity
14 held by the taxpayer (other than an interest in an
15 entity which was a renewal community business dur-
16 ing substantially all of the period the taxpayer held
17 such interest) for more than 5 years shall be treated
18 as gain described in subsection (a) to the extent
19 such gain is attributable to amounts which would be
20 qualified capital gain on qualified community assets
21 (determined as if such assets had been sold on the
22 date of the sale or exchange) held by such entity for
23 more than 5 years (determined without regard to
24 any period before the date of the designation of the
25 renewal community) and throughout the period the

1 taxpayer held such interest. A rule similar to the
2 rule of paragraph (2)(C) shall apply for purposes of
3 the preceding sentence.
4 "(2) INCOME INCLUSIONS.—
5 "(A) IN GENERAL.—Any amount included
6 in income by reason of holding an interest in a
7 pass-thru entity (other than an entity which
8 was a renewal community business during sub-
9 stantially all of the period the taxpayer held the
10 interest to which such inclusion relates) shall be
11 treated as gain described in subsection (a) if
12 such amount meets the requirements of sub-
13 paragraph (B).
14 "(B) REQUIREMENTS.—An amount meets
15 the requirements of this subparagraph if—
16 "(i) such amount is attributable to
17 qualified capital gain recognized on the
18 sale or exchange by the pass-thru entity of
19 property which is a qualified community
20 asset in the hands of such entity and
21 which was held by such entity for the pe-
22 riod required under subsection (a), and
23 "(ii) such amount is includible in the
24 gross income of the taxpayer by reason of
25 the holding of an interest in such entity

1 which was held by the taxpayer on the date
2 on which such pass-thru entity acquired
3 such asset and at all times thereafter be-
4 fore the disposition of such asset by such
5 pass-thru entity.
6 "(C) LIMITATION BASED ON INTEREST
7 ORIGINALLY HELD BY TAXPAYER.—Subpara-
8 graph (A) shall not apply to any amount to the
9 extent such amount exceeds the amount to
10 which subparagraph (A) would have applied if
11 such amount were determined by reference to
12 the interest the taxpayer held in the pass-thru
13 entity on the date the qualified community
14 asset was acquired.
15 "(3) PASS-THRU ENTITY.—For purposes of this
16 subsection, the term 'pass-thru entity' means—
17 "(A) any partnership,
18 "(B) any S corporation,
19 "(C) any regulated investment company,
20 and
21 "(D) any common trust fund.
22 "(e) SALES AND EXCHANGES OF INTERESTS IN
23 PARTNERSHIPS AND S CORPORATIONS WHICH ARE
24 QUALIFIED COMMUNITY BUSINESSES.—In the case of the
25 sale or exchange of an interest in a partnership, or of

1 stock in an S corporation, which was a renewal community
2 business during substantially all of the period the taxpayer
3 held such interest or stock, the amount of qualified capital
4 gain shall be determined without regard to—
5 "(1) any intangible, and any land, which is not
6 an integral part of any qualified business entity (as
7 defined in section 1400C(b)), and
8 "(2) gain attributable to periods before the des-
9 ignation of an area as a renewal community.
10 "(f) CERTAIN TAX-FREE AND OTHER TRANSFERS.—
11 For purposes of this section—
12 "(1) IN GENERAL.—In the case of a transfer of
13 a qualified community asset to which this subsection
14 applies, the transferee shall be treated as—
15 "(A) having acquired such asset in the
16 same manner as the transferor, and
17 "(B) having held such asset during any
18 continuous period immediately preceding the
19 transfer during which it was held (or treated as
20 held under this subsection) by the transferor.
21 "(2) TRANSFERS TO WHICH SUBSECTION AP-
22 PLIES.—This subsection shall apply to any trans-
23 fer—
24 "(A) by gift,
25 "(B) at death, or

"(C) from a partnership to a partner thereof, of a qualified community asset with respect to which the requirements of subsection (d)(2) are met at the time of the transfer (without regard to the 5-year holding requirement).

"(3) CERTAIN RULES MADE APPLICABLE.—Rules similar to the rules of section 1244(d)(2) shall apply for purposes of this section.

"SEC. 1400B. RENEWAL COMMUNITY STOCK.

"(a) GENERAL RULE.—At the election of any individual, the aggregate amount paid by such taxpayer during the taxable year for the purchase of renewal community stock shall be allowed as a deduction.

"(b) LIMITATIONS.—

"(1) CEILING.—

"(A) IN GENERAL.—The maximum amount allowed as a deduction under subsection (a) to a taxpayer shall not exceed—

"(i) $100,000 for any taxable year, and

"(ii) when added to the aggregate amount allowed as a deduction under this section in all prior years, $500,000.

1 "(B) EXCESS AMOUNTS.—If the amount
2 otherwise deductible by any person under sub-
3 section (a) exceeds the limitation under—
4 "(i) subparagraph (A)(i), the amount
5 of such excess shall be treated as an
6 amount paid in the next taxable year, and
7 "(ii) subparagraph (A), the deduction
8 allowed for any taxable year shall be allo-
9 cated proportionately among the renewal
10 community stock purchased by such person
11 on the basis of the respective purchase
12 prices per share.
13 "(2) RELATED PERSONS.—The taxpayer and
14 members of the taxpayer's family shall be treated as
15 one person for purposes of paragraph (1) and the
16 limitations contained in such paragraph shall be al-
17 located among the taxpayer and such members in
18 accordance with their respective purchases of re-
19 newal community stock. For purposes of this para-
20 graph, an individual's family includes only such indi-
21 vidual's spouse and minor children.
22 "(3) PARTIAL TAXABLE YEAR.—If designation
23 of an area as a renewal community occurs, expires,
24 or is revoked pursuant to section 1400 on a date
25 other than the first or last day of the taxable year

1 of the taxpayer, or in the case of a short taxable
2 year, the limitations specified in paragraph (1) shall
3 be adjusted on a pro rata basis (based upon the
4 number of days).
5 "(c) RENEWAL COMMUNITY STOCK.—For purposes
6 of this section—
7 "(1) IN GENERAL.—The term 'renewal commu-
8 nity stock' means stock of a corporation if—
9 "(A) such stock is acquired on original
10 issue from the corporation, and
11 "(B) such corporation is, at the time of
12 such issuance, a qualified renewal community
13 issuer.
14 "(2) PROCEEDS MUST BE INVESTED IN QUALI-
15 FIED RENEWAL COMMUNITY PROPERTY.—
16 "(A) IN GENERAL.—Such term shall in-
17 clude such stock only to the extent that the pro-
18 ceeds of such issuance are used by such issuer
19 during the 12-month period beginning on the
20 date of issuance to purchase (as defined in sec-
21 tion 179(d)(2)) qualified renewal community
22 property.
23 "(B) QUALIFIED RENEWAL COMMUNITY
24 PROPERTY.—For purposes of this section, the
25 term 'qualified renewal community property'

1 means property to which section 168 applies (or
2 would apply but for section 179)—
3 "(i) the original use of which com-
4 mences in a renewal community with the
5 issuer, and
6 "(ii) substantially all of the use of
7 which is in such renewal community.
8 "(3) REDEMPTIONS.—The term 'renewal com-
9 munity stock' shall not include any stock acquired
10 from a corporation which made a substantial stock
11 redemption or distribution (without a bona fide busi-
12 ness purpose therefor) in an attempt to avoid the
13 purposes of this section.
14 "(d) QUALIFIED RENEWAL COMMUNITY ISSUER.—
15 For purposes of this section, the term 'qualified renewal
16 community issuer' means any domestic C corporation if—
17 "(1) such corporation is a corporation described
18 in section 1400C(b) or, in the case of a new corpora-
19 tion, such corporation is being organized for pur-
20 poses of being such a corporation,
21 "(2) such corporation does not have more than
22 one class of stock,
23 "(3) the sum of—
24 "(A) the money,

1 "(B) the aggregate unadjusted bases of
2 property owned by such corporation, and
3 "(C) the value of property leased to the
4 corporation (as determined under regulations
5 prescribed by the Secretary),
6 does not exceed $50,000,000, and
7 "(4) more than 20 percent of the total voting
8 power, and 20 percent of the total value, of the
9 stock of such corporation is owned directly by indi-
10 viduals or estates or indirectly by individuals
11 through partnerships or trusts.
12 The determination under paragraph (3) shall be made as
13 of the time of issuance of the stock in question but shall
14 include amounts received for such stock.
15 "(e) DISPOSITIONS OF STOCK.—
16 "(1) BASIS REDUCTION.—For purposes of this
17 title, the basis of any renewal community stock shall
18 be reduced by the amount of the deduction allowed
19 under this section with respect to such stock.
20 "(2) DEDUCTION RECAPTURED AS ORDINARY
21 INCOME.—For purposes of section 1245—
22 "(A) any stock the basis of which is re-
23 duced under paragraph (1) (and any other
24 property the basis of which is determined in
25 whole or in part by reference to the adjusted

1 basis of such stock) shall be treated as section
2 1245 property, and
3 "(B) any reduction under paragraph (1)
4 shall be treated as a deduction allowed for de-
5 preciation.
6 If an exchange of any stock described in paragraph
7 (1) qualifies under section 354(a), 355(a), or
8 356(a), the amount of gain recognized under section
9 1245 by reason of this paragraph shall not exceed
10 the amount of gain recognized in the exchange (de-
11 termined without regard to this paragraph).
12 "(3) CERTAIN EVENTS TREATED AS DISPOSI-
13 TIONS.—For purposes of determining the amount
14 treated as ordinary income under section 1245 by
15 reason of paragraph (2), paragraph (3) of section
16 1245(b) (relating to certain tax-free transactions)
17 shall not apply.
18 "(4) INTEREST CHARGED IF DISPOSITION
19 WITHIN 5 YEARS OF PURCHASE.—
20 "(A) IN GENERAL.—If—
21 "(i) a taxpayer disposes of any re-
22 newal community stock with respect to
23 which a deduction was allowed under sub-
24 section (a) (or any other property the basis
25 of which is determined in whole or in part

1 by reference to the adjusted basis of such
2 stock) before the end of the 5-year period
3 beginning on the date such stock was pur-
4 chased by the taxpayer, and
5 "(ii) section 1245(a) applies to such
6 disposition by reason of paragraph (2),
7 then the tax imposed by this chapter for the
8 taxable year in which such disposition occurs
9 shall be increased by the amount determined
10 under subparagraph (B).
11 "(B) INCREASE AMOUNT.—For purposes
12 of subparagraph (A), the amount of the in-
13 crease shall be equal to the amount of interest
14 (determined at the rate applicable under section
15 6621(a)(2)) that would accrue—
16 "(i) during the period beginning on
17 the date the stock was purchased by the
18 taxpayer and ending on the date of such
19 disposition by the taxpayer, and
20 "(ii) on an amount equal to the aggre-
21 gate decrease in tax of the taxpayer result-
22 ing from the deduction allowed under sub-
23 section (a) of this section with respect to
24 such stock.

"(C) SPECIAL RULE.—Any increase in tax under subparagraph (A) shall not be treated as a tax imposed by this chapter for purposes of—

"(i) determining the amount of any credit allowable under this chapter, and

"(ii) determining the amount of the tax imposed by section 55.

"(f) DISQUALIFICATION.—

"(1) ISSUER CEASES TO QUALIFY.—If, during the 10-year period beginning on the date renewal community stock was purchased by the taxpayer, the issuer of such stock ceases to be a qualified renewal community issuer (determined without regard to subsection (d)(3)), then notwithstanding any provision of this subtitle other than paragraph (2), the taxpayer shall be treated for purposes of subsection (e) as disposing of such stock (and any other property the basis of which is determined in whole or in part by reference to the adjusted basis of such stock) during the taxable year during which such cessation occurs at its fair market value as of the 1st day of such taxable year.

"(2) CESSATION OF RENEWAL COMMUNITY STATUS NOT TO CAUSE RECAPTURE.—A corporation shall not fail to be treated as a qualified renewal

1 community issuer for purposes of paragraph (1)
2 solely by reason of the termination or revocation of
3 a designation as a renewal community, as the case
4 may be.
5 "(g) OTHER SPECIAL RULES.—
6 "(1) APPLICATION OF LIMITS TO PARTNER-
7 SHIPS AND S CORPORATIONS.—In the case of a part-
8 nership or an S corporation, the limitations under
9 subsection (b) shall apply at the partner and share-
10 holder level and shall not apply at the partnership
11 or corporation level.
12 "(2) DEDUCTION NOT ALLOWED TO ESTATES
13 AND TRUSTS.—Estates and trusts shall not be treat-
14 ed as individuals for purposes of this section.
15 **"SEC. 1400C. RENEWAL COMMUNITY BUSINESS DEFINED.**
16 "(a) IN GENERAL.—For purposes of this part, the
17 term 'renewal community business' means—
18 "(1) any qualified business entity, and
19 "(2) any qualified proprietorship.
20 Such term shall include any trades or businesses which
21 would qualify as a renewal community business if such
22 trades or businesses were separately incorporated. Such
23 term shall not include any trade or business of producing
24 property of a character subject to the allowance for deple-
25 tion under section 611.

1 "(b) QUALIFIED BUSINESS ENTITY.— For purposes
2 of this section, the term 'qualified business entity' means,
3 with respect to any taxable year, any corporation or part-
4 nership if for such year—
5 "(1) every trade or business of such entity is
6 the active conduct of a qualified business within a
7 renewal community,
8 "(2) at least 80 percent of the total gross in-
9 come of such entity is derived from the active con-
10 duct of such business,
11 "(3) substantially all of the use of the tangible
12 property of such entity (whether owned or leased) is
13 within a renewal community,
14 "(4) substantially all of the intangible property
15 of such entity is used in, and exclusively related to,
16 the active conduct of any such business,
17 "(5) substantially all of the services performed
18 for such entity by its employees are performed in a
19 renewal community,
20 "(6) at least 35 percent of its employees are
21 residents of a renewal community,
22 "(7) less than 5 percent of the average of the
23 aggregate unadjusted bases of the property of such
24 entity is attributable to collectibles (as defined in
25 section 408(m)(2)) other than collectibles that are

1 held primarily for sale to customers in the ordinary
2 course of such business, and
3 "(8) less than 5 percent of the average of the
4 aggregate unadjusted bases of the property of such
5 entity is attributable to nonqualified financial prop-
6 erty.
7 "(c) QUALIFIED PROPRIETORSHIP.—For purposes of
8 this section, the term 'qualified proprietorship' means,
9 with respect to any taxable year, any qualified business
10 carried on by an individual as a proprietorship if for such
11 year—
12 "(1) at least 80 percent of the total gross in-
13 come of such individual from such business is de-
14 rived from the active conduct of such business in a
15 renewal community,
16 "(2) substantially all of the use of the tangible
17 property of such individual in such business (wheth-
18 er owned or leased) is within a renewal community,
19 "(3) substantially all of the intangible property
20 of such business is used in, and exclusively related
21 to, the active conduct of such business,
22 "(4) substantially all of the services performed
23 for such individual in such business by employees of
24 such business are performed in a renewal commu-
25 nity,

1 "(5) at least 35 percent of such employees are
2 residents of a renewal community,
3 "(6) less than 5 percent of the average of the
4 aggregate unadjusted bases of the property of such
5 individual which is used in such business is attrib-
6 utable to collectibles (as defined in section
7 408(m)(2)) other than collectibles that are held pri-
8 marily for sale to customers in the ordinary course
9 of such business, and
10 "(7) less than 5 percent of the average of the
11 aggregate unadjusted bases of the property of such
12 individual which is used in such business is attrib-
13 utable to nonqualified financial property.
14 For purposes of this subsection, the term 'employee' in-
15 cludes the proprietor.
16 "(d) QUALIFIED BUSINESS.—For purposes of this
17 section—
18 "(1) IN GENERAL.—Except as otherwise pro-
19 vided in this subsection, the term 'qualified business'
20 means any trade or business.
21 "(2) RENTAL OF REAL PROPERTY.—The rental
22 to others of real property located in a renewal com-
23 munity shall be treated as a qualified business if and
24 only if—

1 "(A) the property is not residential rental
2 property (as defined in section 168(e)(2)), and
3 "(B) at least 50 percent of the gross rental
4 income from the real property is from renewal
5 community businesses.
6 "(3) RENTAL OF TANGIBLE PERSONAL PROP-
7 ERTY.—The rental to others of tangible personal
8 property shall be treated as a qualified business if
9 and only if substantially all of the rental of such
10 property is by renewal community businesses or by
11 residents of a renewal community.
12 "(4) TREATMENT OF BUSINESS HOLDING IN-
13 TANGIBLES.—The term 'qualified business' shall not
14 include any trade or business consisting predomi-
15 nantly of the development or holding of intangibles
16 for sale or license.
17 "(5) CERTAIN BUSINESSES EXCLUDED.—The
18 term 'qualified business' shall not include—
19 "(A) any trade or business consisting of
20 the operation of any facility described in section
21 144(c)(6)(B), and
22 "(B) any trade or business the principal
23 activity of which is farming (within the meaning
24 of subparagraphs (A) or (B) of section

1 2032A(e)(5)), but only if, as of the close of the
2 preceding taxable year, the sum of—
3 "(i) the aggregate unadjusted bases
4 (or, if greater, the fair market value) of
5 the assets owned by the taxpayer which are
6 used in such a trade or business, and
7 "(ii) the aggregate value of assets
8 leased by the taxpayer which are used in
9 such a trade or business,
10 exceeds $500,000.
11 "(6) CONTROLLED GROUPS.—For purposes of
12 paragraph (5)(B), all persons treated as a single em-
13 ployer under subsection (a) or (b) of section 52 shall
14 be treated as a single taxpayer.
15 "(e) NONQUALIFIED FINANCIAL PROPERTY.—For
16 purposes of this section, the term 'nonqualified financial
17 property' means debt, stock, partnership interests, op-
18 tions, futures contracts, forward contracts, warrants, no-
19 tional principal contracts, annuities, and other similar
20 property specified in regulations; except that such term
21 shall not include—
22 "(1) reasonable amounts of working capital
23 held in cash, cash equivalents, or debt instruments
24 with a term of 18 months or less, or

"(2) debt instruments described in section 1221(4).

"PART III—FAMILY DEVELOPMENT ACCOUNTS

"Sec. 1400D. Family development accounts.
"Sec. 1400E. Demonstration program to provide matching contributions to family development accounts in certain renewal communities.
"Sec. 1400F. Designation of earned income tax credit payments for deposit to family development account.

"SEC. 1400D. FAMILY DEVELOPMENT ACCOUNTS FOR RENEWAL COMMUNITY EITC RECIPIENTS.

"(a) ALLOWANCE OF DEDUCTION.—

"(1) IN GENERAL.—There shall be allowed as a deduction—

"(A) in the case of a qualified individual, the amount paid in cash for the taxable year by such individual to any family development account for such individual's benefit, and

"(B) in the case of any person other than a qualified individual, the amount paid in cash for the taxable year by such person to any family development account for the benefit of a qualified individual.

No deduction shall be allowed under this paragraph for any amount deposited in a family development account under section 1400E (relating to demonstration program to provide matching amounts in renewal communities).

1 "(2) LIMITATION.—

2 "(A) IN GENERAL.—The amount allowable
3 as a deduction to any individual for any taxable
4 year by reason of paragraph (1)(A) shall not
5 exceed the lesser of—

6 "(i) $2,000, or

7 "(ii) an amount equal to the com-
8 pensation includible in the individual's
9 gross income for such taxable year.

10 "(B) PERSONS DONATING TO FAMILY DE-
11 VELOPMENT ACCOUNTS OF OTHERS.—The
12 amount allowable as a deduction to any person
13 for any taxable year by reason of paragraph
14 (1)(B) shall not exceed $1,000 with respect to
15 any qualified individual.

16 "(3) SPECIAL RULES FOR CERTAIN MARRIED
17 INDIVIDUALS.—

18 "(A) IN GENERAL.—In the case of any in-
19 dividual with respect to whom a deduction is
20 otherwise allowable under paragraph (1)(A)—

21 "(i) who files a joint return for a tax-
22 able year, and

23 "(ii) whose spouse is a qualified indi-
24 vidual and—

1 "(I) has no compensation (deter-
2 mined without regard to section 911)
3 for the taxable year, or
4 "(II) elects to be treated for pur-
5 poses of paragraph (2)(A)(ii) as hav-
6 ing no compensation for the taxable
7 year,
8 there shall be allowed as a deduction any
9 amount paid in cash for the taxable year by the
10 individual to a family development account es-
11 tablished for the benefit of the spouse of the in-
12 dividual.
13 "(B) LIMITATION.—The amount allowable
14 as a deduction under subparagraph (A) shall
15 not exceed the excess of—
16 "(i) the lesser of—
17 "(I) $2,250, or
18 "(II) an amount equal to the
19 compensation includible in the individ-
20 ual's gross income for the taxable
21 year, over
22 "(ii) the amount allowable as a deduc-
23 tion under paragraph (1) for the taxable
24 year.

1 In no event shall the amount allowable as a de-
2 duction under subparagraph (A) exceed $2,000.
3 "(4) ROLLOVERS.—No deduction shall be al-
4 lowed under this section with respect to any rollover
5 contribution.
6 "(b) TAX TREATMENT OF DISTRIBUTIONS.—
7 "(1) INCLUSION OF AMOUNTS IN GROSS IN-
8 COME.—Except as otherwise provided in this sub-
9 section, any amount paid or distributed out of a
10 family development account shall be included in
11 gross income by the payee or distributee, as the case
12 may be.
13 "(2) EXCLUSION OF QUALIFIED FAMILY DEVEL-
14 OPMENT DISTRIBUTIONS.—Paragraph (1) shall not
15 apply to any qualified family development distribu-
16 tion.
17 "(3) SPECIAL RULES.—Rules similar to the
18 rules of paragraphs (4) and (5) of section 408(d)
19 shall apply for purposes of this section.
20 "(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBU-
21 TION.—For purposes of this section—
22 "(1) IN GENERAL.—The term 'qualified family
23 development distribution' means any amount paid or
24 distributed out of a family development account
25 which would otherwise be includible in gross income,

1 to the extent that such payment or distribution is
2 used exclusively to pay qualified family development
3 expenses for the holder of the account or the spouse
4 or dependent (as defined in section 152) of such
5 holder.

6 "(2) QUALIFIED FAMILY DEVELOPMENT EX-
7 PENSES.—The term 'qualified family development
8 expenses' means any of the following:

9 "(A) Qualified postsecondary educational
10 expenses.

11 "(B) First-home purchase costs.

12 "(C) Qualified business capitalization
13 costs.

14 "(D) Qualified medical expenses.

15 "(E) Qualified rollovers.

16 "(3) QUALIFIED POSTSECONDARY EDU-
17 CATIONAL EXPENSES.—

18 "(A) IN GENERAL.—The term 'qualified
19 postsecondary educational expenses' means
20 postsecondary educational expenses paid to an
21 eligible educational institution.

22 "(B) POST-SECONDARY EDUCATIONAL EX-
23 PENSES.—The term 'post-secondary educational
24 expenses' means tuition, fees, room, board,
25 books, supplies, and equipment required for the

1 enrollment or attendance of a student at an eli-
2 gible educational institution.
3 "(C) ELIGIBLE EDUCATIONAL INSTITU-
4 TION.—The term 'eligible educational institu-
5 tion' means the following:
6 "(i) INSTITUTION OF HIGHER EDU-
7 CATION.—An institution described in sec-
8 tion 481(a)(1) or 1201(a) of the Higher
9 Education Act of 1965 (20 U.S.C.
10 1088(a)(1), 1141(a)), as such sections are
11 in effect on the date of the enactment of
12 this section.
13 "(ii) POSTSECONDARY VOCATIONAL
14 EDUCATION SCHOOL.—An area vocational
15 education school (as defined in subpara-
16 graph (C) or (D) of section 521(4) of the
17 Carl D. Perkins Vocational and Applied
18 Technology Education Act (20 U.S.C.
19 2471(4))) which is in any State (as defined
20 in section 521(33) of such Act), as such
21 sections are in effect on the date of the en-
22 actment of this section.
23 "(D) COORDINATION WITH SAVINGS BOND
24 PROVISIONS.—The amount of qualified post-
25 secondary educational expenses for any taxable

1 year shall be reduced by any amount excludable
2 from gross income under section 135.
3 "(4) FIRST-HOME PURCHASE COSTS.—
4 "(A) IN GENERAL.—The term 'first-home
5 purchase costs' means qualified acquisition
6 costs with respect to a qualified principal resi-
7 dence for a qualified first-time homebuyer.
8 "(B) QUALIFIED ACQUISITION COSTS.—
9 The term 'qualified acquisition costs' means the
10 costs of acquiring, constructing, or reconstruct-
11 ing a residence. Such term includes any usual
12 or reasonable settlement, financing, or other
13 closing costs.
14 "(C) QUALIFIED PRINCIPAL RESIDENCE.—
15 The term 'qualified principal residence' means a
16 principal residence (within the meaning of sec-
17 tion 1034), the qualified acquisition costs of
18 which do not exceed 100 percent of the average
19 area purchase price applicable to such residence
20 (determined in accordance with paragraphs (2)
21 and (3) of section 143(e)).
22 "(D) QUALIFIED FIRST-TIME HOME-
23 BUYER.—
24 "(i) IN GENERAL.—The term 'quali-
25 fied first-time homebuyer' means an indi-

1 vidual if such individual (and, in the case
2 of a married individual, the individual's
3 spouse) has no present ownership interest
4 in a principal residence during the 3-year
5 period ending on the date of acquisition of
6 the principal residence to which this sub-
7 section applies.
8 "(ii) DATE OF ACQUISITION.—The
9 term 'date of acquisition' means the date
10 on which a binding contract to acquire,
11 construct, or reconstruct the principal resi-
12 dence to which this subsection applies is
13 entered into.
14 "(5) QUALIFIED BUSINESS CAPITALIZATION
15 COSTS.—
16 "(A) IN GENERAL.—The term 'qualified
17 business capitalization costs' means qualified
18 expenditures for the capitalization of a qualified
19 business pursuant to a qualified plan.
20 "(B) QUALIFIED EXPENDITURES.—The
21 term 'qualified expenditures' means expendi-
22 tures included in a qualified plan, including
23 capital, plant, equipment, working capital, and
24 inventory expenses.

1 "(C) QUALIFIED BUSINESS.—The term
2 'qualified business' means any business that
3 does not contravene any law or public policy (as
4 determined by the Secretary).
5 "(D) QUALIFIED PLAN.—The term 'quali-
6 fied plan' means a business plan which—
7 "(i) is approved by a financial institu-
8 tion, or by a nonprofit loan fund having
9 demonstrated fiduciary integrity,
10 "(ii) includes a description of services
11 or goods to be sold, a marketing plan, and
12 projected financial statements, and
13 "(iii) may require the eligible individ-
14 ual to obtain the assistance of an experi-
15 enced entrepreneurial advisor.
16 "(6) QUALIFIED MEDICAL EXPENSES.—The
17 term 'qualified medical expenses' means any amount
18 paid during the taxable year, not compensated for by
19 insurance or otherwise, for medical care (as defined
20 in section 213(d)) of the taxpayer, his spouse, or his
21 dependent (as defined in section 152).
22 "(7) QUALIFIED ROLLOVERS.—The term 'quali-
23 fied rollover' means any amount paid from a family
24 development account of a taxpayer into another such
25 account established for the benefit of—

1 "(A) such taxpayer, or
2 "(B) any qualified individual who is—
3 "(i) the spouse of such taxpayer, or
4 "(ii) any dependent (as defined in sec-
5 tion 152) of the taxpayer.
6 Rules similar to the rules of section 408(d)(3) shall
7 apply for purposes of this paragraph.
8 "(d) TAX TREATMENT OF ACCOUNTS.—
9 "(1) IN GENERAL.—Any family development ac-
10 count is exempt from taxation under this subtitle
11 unless such account has ceased to be a family devel-
12 opment account by reason of paragraph (2). Not-
13 withstanding the preceding sentence, any such ac-
14 count is subject to the taxes imposed by section 511
15 (relating to imposition of tax on unrelated business
16 income of charitable, etc., organizations).
17 "(2) LOSS OF EXEMPTION IN CASE OF PROHIB-
18 ITED TRANSACTIONS.—For purposes of this section,
19 rules similar to the rules of section 408(e) shall
20 apply.
21 "(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-
22 poses of this title, the term 'family development account'
23 means a trust created or organized in the United States
24 for the exclusive benefit of a qualified individual or his

1 beneficiaries, but only if the written governing instrument
2 creating the trust meets the following requirements:
3 "(1) Except in the case of a qualified rollover
4 (as defined in subsection (c)(7))—
5 "(A) no contribution will be accepted un-
6 less it is in cash, and
7 "(B) contributions will not be accepted for
8 the taxable year in excess of $2,000 (deter-
9 mined without regard to any contribution made
10 under section 1400E (relating to demonstration
11 program to provide matching amounts in re-
12 newal communities)).
13 "(2) The trustee is a bank (as defined in sec-
14 tion 408(n)) or such other person who demonstrates
15 to the satisfaction of the Secretary that the manner
16 in which such other person will administer the trust
17 will be consistent with the requirements of this sec-
18 tion.
19 "(3) No part of the trust funds will be invested
20 in life insurance contracts.
21 "(4) The interest of an individual in the bal-
22 ance in his account is nonforfeitable.
23 "(5) The assets of the trust will not be commin-
24 gled with other property except in a common trust
25 fund or common investment fund.

1 "(6) Under regulations prescribed by the Sec-
2 retary, rules similar to the rules of section 401(a)(9)
3 and the incidental death benefit requirements of sec-
4 tion 401(a) shall apply to the distribution of the en-
5 tire interest of an individual for whose benefit the
6 trust is maintained.
7 "(f) QUALIFIED INDIVIDUAL.—For purposes of this
8 section, the term 'qualified individual' means, for any tax-
9 able year, an individual—
10 "(1) who is a bona fide resident of a renewal
11 community throughout the taxable year, and
12 "(2) to whom a credit was allowed under sec-
13 tion 32 for the preceding taxable year.
14 "(g) OTHER DEFINITIONS AND SPECIAL RULES.—
15 "(1) COMPENSATION.—The term 'compensa-
16 tion' has the meaning given such term by section
17 219(f)(1).
18 "(2) MARRIED INDIVIDUALS.—The maximum
19 deduction under subsection (a) shall be computed
20 separately for each individual, and this section shall
21 be applied without regard to any community prop-
22 erty laws.
23 "(3) TIME WHEN CONTRIBUTIONS DEEMED
24 MADE.—For purposes of this section, a taxpayer
25 shall be deemed to have made a contribution to a

1 family development account on the last day of the
2 preceding taxable year if the contribution is made
3 on account of such taxable year and is made not
4 later than the time prescribed by law for filing the
5 return for such taxable year (not including exten-
6 sions thereof).

7 "(4) EMPLOYER PAYMENTS.—For purposes of
8 this title, any amount paid by an employer to a fam-
9 ily development account shall be treated as payment
10 of compensation to the employee (other than a self-
11 employed individual who is an employee within the
12 meaning of section 401(c)(1)) includible in his gross
13 income in the taxable year for which the amount was
14 contributed, whether or not a deduction for such
15 payment is allowable under this section to the em-
16 ployee.

17 "(5) ZERO BASIS.—The basis of an individual
18 in any family development account of such individual
19 shall be zero.

20 "(6) CUSTODIAL ACCOUNTS.—For purposes of
21 this section, a custodial account shall be treated as
22 a trust if the assets of such account are held by a
23 bank (as defined in section 408(n)) or another per-
24 son who demonstrates, to the satisfaction of the Sec-
25 retary, that the manner in which such person will

1 administer the account will be consistent with the re-
2 quirements of this section, and if the custodial ac-
3 count would, except for the fact that it is not a
4 trust, constitute a family development account de-
5 scribed in this section. For purposes of this title, in
6 the case of a custodial account treated as a trust by
7 reason of the preceding sentence, the custodian of
8 such account shall be treated as the trustee thereof.
9 "(7) REPORTS.—The trustee of a family devel-
10 opment account shall make such reports regarding
11 such account to the Secretary and to the individual
12 for whom the account is maintained with respect to
13 contributions (and the years to which they relate),
14 distributions, and such other matters as the Sec-
15 retary may require under regulations. The reports
16 required by this paragraph—
17 "(A) shall be filed at such time and in
18 such manner as the Secretary prescribes in
19 such regulations, and
20 "(B) shall be furnished to individuals—
21 "(i) not later than January 31 of the
22 calendar year following the calendar year
23 to which such reports relate, and
24 "(ii) in such manner as the Secretary
25 prescribes in such regulations.

"(8) INVESTMENT IN COLLECTIBLES TREATED AS DISTRIBUTIONS.—Rules similar to the rules of section 408(m) shall apply for purposes of this section.

"(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

"(1) IN GENERAL.—If any amount is distributed from a family development account and is not used exclusively to pay qualified family development expenses for the holder of the account or the spouse or dependent (as defined in section 152) of such holder, the tax imposed by this chapter for the taxable year of such distribution shall be increased by the sum of—

"(A) 100 percent of the portion of such amount which is includible in gross income and is attributable to amounts contributed under section 1400E (relating to demonstration program to provide matching amounts in renewal communities), and

"(B) 10 percent of the portion of such amount which is includible in gross income and is not described in paragraph (1).

For purposes of this subsection, the portion of a distributed amount which is attributable to amounts

1 contributed under section 1400E is the amount
2 which bears the same ratio to the distributed
3 amount as the aggregate amount contributed under
4 section 1400E to all family development accounts of
5 the individual bears to the aggregate amount con-
6 tributed to such accounts from all sources.
7 "(2) EXCEPTION FOR CERTAIN DISTRIBU-
8 TIONS.—Paragraph (1) shall not apply to distribu-
9 tions which are—
10 "(A) made on or after the date on which
11 the account holder attains age 59½,
12 "(B) made pursuant to subsection (e)(6),
13 "(C) made to a beneficiary (or the estate
14 of the account holder) on or after the death of
15 the account holder, or
16 "(D) attributable to the account holder's
17 being disabled within the meaning of section
18 72(m)(7).
19 **"SEC. 1400E. DEMONSTRATION PROGRAM TO PROVIDE**
20 **MATCHING CONTRIBUTIONS TO FAMILY DE-**
21 **VELOPMENT ACCOUNTS IN CERTAIN RE-**
22 **NEWAL COMMUNITIES.**
23 "(a) DESIGNATION.—

1 "(1) DEFINITIONS.—For purposes of this sec-
2 tion, the term 'FDA matching demonstration area'
3 means any renewal community—
4 "(A) which is nominated under this section
5 by each of the local governments and States
6 which nominated such community for designa-
7 tion as a renewal community under section
8 1400(a)(1)(A), and
9 "(B) which the Secretary of Housing and
10 Urban Development, after consultation with—
11 "(i) the Secretaries of Agriculture,
12 Commerce, Labor, and the Treasury, the
13 Director of the Office of Management and
14 Budget, and the Administrator of the
15 Small Business Administration, and
16 "(ii) in the case of a community on an
17 Indian reservation, the Secretary of the In-
18 terior,
19 designates as an FDA matching demonstration
20 area.
21 "(2) NUMBER OF DESIGNATIONS.—
22 "(A) IN GENERAL.—The Secretary of
23 Housing and Urban Development may des-
24 ignate not more than 25 renewal communities
25 as FDA matching demonstration areas.

1 "(B) MINIMUM DESIGNATION IN RURAL
2 AREAS.—Of the areas designated under para-
3 graph (1), at least 2 must be areas described in
4 section 1400(a)(2)(B).
5 "(3) LIMITATIONS ON DESIGNATIONS.—
6 "(A) PUBLICATION OF REGULATIONS.—
7 The Secretary of Housing and Urban Develop-
8 ment shall prescribe by regulation no later than
9 4 months after the date of the enactment of
10 this section, after consultation with the officials
11 described in paragraph (1)(B)—
12 "(i) the procedures for nominating a
13 renewal community under paragraph
14 (1)(A) (including procedures for coordinat-
15 ing such nomination with the nomination
16 of an area for designation as a renewal
17 community under section 1400), and
18 "(ii) the manner in which nominated
19 renewal communities will be evaluated for
20 purposes of this section.
21 "(B) TIME LIMITATIONS.—The Secretary
22 of Housing and Urban Development may des-
23 ignate renewal communities as FDA matching
24 demonstration areas only during the 24-month
25 period beginning on the first day of the first

1 month following the month in which the regula-
2 tions described in subparagraph (A) are pre-
3 scribed.
4 (4) DESIGNATION BASED ON DEGREE OF POV-
5 ERTY, ETC.—The rules of section 1400(a)(3) shall
6 apply for purposes of designations of FDA matching
7 demonstration areas under this section.
8 "(b) PERIOD FOR WHICH DESIGNATION IS IN EF-
9 FECT.—Any designation of a renewal community as an
10 FDA matching demonstration area shall remain in effect
11 during the period beginning on the date of such designa-
12 tion and ending on the date on which such area ceases
13 to be a renewal community.
14 "(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-
15 OPMENT ACCOUNTS.—
16 "(1) IN GENERAL.—Not less than once each
17 taxable year, the Secretary shall deposit (to the ex-
18 tent provided in appropriation Acts) into a family
19 development account of each qualified individual (as
20 defined in section 1400D(f)) who is a resident
21 throughout the taxable year of an FDA matching
22 demonstration area an amount equal to the sum of
23 the amounts deposited into all of the family develop-
24 ment accounts of such individual during such tax-

able year (determined without regard to any amount contributed under this section).

"(2) LIMITATIONS.—

"(A) ANNUAL LIMIT.—The Secretary shall not deposit more than $1000 under paragraph (1) with respect to any individual for any taxable year.

"(B) AGGREGATE LIMIT.—The Secretary shall not deposit more than $2000 under paragraph (1) with respect to any individual.

"(3) EXCLUSION FROM INCOME.—Except as provided in section 1400D, gross income shall not include any amount deposited into a family development account under paragraph (1).

"SEC. 1400F. DESIGNATION OF EARNED INCOME TAX CREDIT PAYMENTS FOR DEPOSIT TO FAMILY DEVELOPMENT ACCOUNT.

"(a) IN GENERAL.—With respect to the return of any qualified individual (as defined in section 1400D(f)) for the taxable year of the tax imposed by this chapter, such individual may designate that a specified portion (not less than $1) of any overpayment of tax for such taxable year which is attributable to the earned income tax credit shall be deposited by the Secretary into a family development

1 account of such individual. The Secretary shall so deposit
2 such portion designated under this subsection.
3 "(b) MANNER AND TIME OF DESIGNATION.—A des-
4 ignation under subsection (a) may be made with respect
5 to any taxable year—
6 "(1) at the time of filing the return of the tax
7 imposed by this chapter for such taxable year, or
8 "(2) at any other time (after the time of filing
9 the return of the tax imposed by this chapter for
10 such taxable year) specified in regulations prescribed
11 by the Secretary.
12 Such designation shall be made in such manner as the
13 Secretary prescribes by regulations.
14 "(c) PORTION ATTRIBUTABLE TO EARNED INCOME
15 TAX CREDIT.—For purposes of subsection (a), an over-
16 payment for any taxable year shall be treated as attrib-
17 utable to the earned income tax credit to the extent that
18 such overpayment does not exceed the credit allowed to
19 the taxpayer under section 32 for such taxable year.
20 "(d) OVERPAYMENTS TREATED AS REFUNDED.—
21 For purposes of this title, any portion of an overpayment
22 of tax designated under subsection (a) shall be treated as
23 being refunded to the taxpayer as of the last date pre-
24 scribed for filing the return of tax imposed by this chapter

1 (determined without regard to extensions) or, if later, the
2 date the return is filed.

3 **"PART IV—ADDITIONAL INCENTIVES**

"Sec. 1400G. Commercial revitalization credit.
"Sec. 1400H. Increase in expensing under section 179.

4 **"SEC. 1400G. COMMERCIAL REVITALIZATION TAX CREDIT.**

5 "(a) GENERAL RULE.—For purposes of section 46,
6 except as provided in subsection (e), the commercial revi-
7 talization credit for any taxable year is an amount equal
8 to the applicable percentage of the qualified revitalization
9 expenditures with respect to any qualified revitalization
10 building.

11 "(b) APPLICABLE PERCENTAGE.—For purposes of
12 this section—

13 "(1) IN GENERAL.—The term 'applicable per-
14 centage' means—

15 "(A) 20 percent for the taxable year in
16 which a qualified revitalization building is
17 placed in service, or

18 "(B) at the election of the taxpayer, 5 per-
19 cent for each taxable year in the credit period.

20 The election under subparagraph (B), once made,
21 shall be irrevocable.

22 "(2) CREDIT PERIOD.—

23 "(A) IN GENERAL.—The term 'credit pe-
24 riod' means, with respect to any building, the

1 period of 10 taxable years beginning with the
2 taxable year in which the building is placed in
3 service.
4 "(B) APPLICABLE RULES.—Rules similar
5 to the rules under paragraphs (2) and (4) of
6 section 42(f) shall apply.
7 "(c) QUALIFIED REVITALIZATION BUILDINGS AND
8 EXPENDITURES.—For purposes of this section—
9 "(1) QUALIFIED REVITALIZATION BUILDING.—
10 The term 'qualified revitalization building' means
11 any building (and its structural components) if—
12 "(A) such building is located in a renewal
13 community and is placed in service after the
14 designation of such renewal community under
15 section 1400,
16 "(B) a commercial revitalization credit
17 amount is allocated to the building under sub-
18 section (e), and
19 "(C) depreciation (or amortization in lieu
20 of depreciation) is allowable with respect to the
21 building.
22 "(2) QUALIFIED REVITALIZATION EXPENDI-
23 TURE.—

1 "(A) IN GENERAL.—The term 'qualified
2 revitalization expenditure' means any amount
3 properly chargeable to capital account—
4 "(i) for property for which deprecia-
5 tion is allowable under section 168 and
6 which is—
7 "(I) nonresidential real property,
8 or
9 "(II) an addition or improvement
10 to property described in subclause (I),
11 "(ii) in connection with the construc-
12 tion or substantial rehabilitation or recon-
13 struction of a qualified revitalization build-
14 ing, or
15 "(iii) for the acquisition of land in
16 connection with the qualified revitalization
17 building.
18 "(B) DOLLAR LIMITATION.—The aggre-
19 gate amount which may be treated as qualified
20 revitalization expenditures with respect to any
21 qualified revitalization building for any taxable
22 year shall not exceed the excess of—
23 "(i) $10,000,000, reduced by
24 "(ii) any such expenditures with re-
25 spect to the building taken into account by

1 the taxpayer or any predecessor in deter-
2 mining the amount of the credit under this
3 section for all preceding taxable years.
4 "(C) CERTAIN EXPENDITURES NOT IN-
5 CLUDED.—The term 'qualified revitalization ex-
6 penditure' does not include—
7 "(i) STRAIGHT LINE DEPRECIATION
8 MUST BE USED.—Any expenditure (other
9 than with respect to land acquisitions) with
10 respect to which the taxpayer does not use
11 the straight line method over a recovery
12 period determined under subsection (c) or
13 (g) of section 168. The preceding sentence
14 shall not apply to any expenditure to the
15 extent the alternative depreciation system
16 of section 168(g) applies to such expendi-
17 ture by reason of subparagraph (B) or (C)
18 of section 168(g)(1).
19 "(ii) ACQUISITION COSTS.—The costs
20 of acquiring any building or interest there-
21 in and any land in connection with such
22 building to the extent that such costs ex-
23 ceed 30 percent of the qualified revitaliza-
24 tion expenditures determined without re-
25 gard to this clause.

1 "(iii) OTHER CREDITS.—Any expendi-
2 ture which the taxpayer may take into ac-
3 count in computing any other credit allow-
4 able under this title unless the taxpayer
5 elects to take the expenditure into account
6 only for purposes of this section.
7 "(5) SUBSTANTIAL REHABILITATION OR RE-
8 CONSTRUCTION.—For purposes of this subsection, a
9 rehabilitation or reconstruction shall be treated as a
10 substantial rehabilitation or reconstruction only if
11 the qualified revitalization expenditures in connec-
12 tion with the rehabilitation or reconstruction exceed
13 25 percent of the fair market value of the building
14 (and its structural components) immediately before
15 the rehabilitation or reconstruction.
16 "(d) WHEN EXPENDITURES TAKEN INTO AC-
17 COUNT.—
18 "(1) IN GENERAL.—Qualified revitalization ex-
19 penditures with respect to any qualified revitaliza-
20 tion building shall be taken into account for the tax-
21 able year in which the qualified revitalization build-
22 ing is placed in service. For purposes of the preced-
23 ing sentence, a substantial rehabilitation or recon-
24 struction of a building shall be treated as a separate
25 building.

1 "(2) PROGRESS EXPENDITURE PAYMENTS.—
2 Rules similar to the rules of subsections (b)(2) and
3 (d) of section 47 shall apply for purposes of this sec-
4 tion.
5 "(e) LIMITATION ON AGGREGATE CREDITS ALLOW-
6 ABLE WITH RESPECT TO BUILDINGS LOCATED IN A
7 STATE.—
8 "(1) IN GENERAL.—The amount of the credit
9 determined under this section for any taxable year
10 with respect to any building shall not exceed the
11 commercial revitalization credit amount (in the case
12 of an amount determined under subsection
13 (b)(1)(B), the present value of such amount as de-
14 termined under the rules of section 42(b)(2)(C)) al-
15 located to such building under this subsection by the
16 commercial revitalization credit agency. Such alloca-
17 tion shall be made at the same time and in the same
18 manner as under paragraphs (1) and (7) of section
19 42(h).
20 "(2) COMMERCIAL REVITALIZATION CREDIT
21 AMOUNT FOR AGENCIES.—
22 "(A) IN GENERAL.—The aggregate com-
23 mercial revitalization credit amount which a
24 commercial revitalization credit agency may al-
25 locate for any calendar year is the amount of

1 the State commercial revitalization credit ceil-
2 ing determined under this paragraph for such
3 calendar year for such agency.
4 "(B) STATE COMMERCIAL REVITALIZATION
5 CREDIT CEILING.—
6 "(i) IN GENERAL.—The State com-
7 mercial revitalization credit ceiling applica-
8 ble to any State for any calendar year is
9 $2,000,000 for each renewal community in
10 the State.
11 "(ii) SPECIAL RULE WHERE COMMU-
12 NITY LOCATED IN MORE THAN 1 STATE.—
13 If a renewal community is located in more
14 than 1 State, a State's share of the
15 amount specified in clause (i) with respect
16 to such community shall be an amount
17 that bears the same ratio to $2,000,000 as
18 the population in the State bears to the
19 population in all States in which such com-
20 munity is located.
21 "(iii) OTHER SPECIAL RULES.—Rules
22 similar to the rules of subparagraphs (D),
23 (E), (F), and (G) of section 42(h)(3) shall
24 apply for purposes of this subsection.

1 "(C) COMMERCIAL REVITALIZATION CRED-
2 IT AGENCY.—For purposes of this section, the
3 term 'commercial revitalization credit agency'
4 means any agency authorized by a State to
5 carry out this section.
6 "(f) RESPONSIBILITIES OF COMMERCIAL REVITAL-
7 IZATION CREDIT AGENCIES.—
8 "(1) PLANS FOR ALLOCATION.—Notwithstand-
9 ing any other provision of this section, the commer-
10 cial revitalization credit amount with respect to any
11 building shall be zero unless—
12 "(A) such amount was allocated pursuant
13 to a qualified allocation plan of the commercial
14 revitalization credit agency which is approved
15 (in accordance with rules similar to the rules of
16 section 147(f)(2) (other than subparagraph
17 (B)(ii) thereof)) by the governmental unit of
18 which such agency is a part, and
19 "(B) such agency notifies the chief execu-
20 tive officer (or its equivalent) of the local juris-
21 diction within which the building is located of
22 such allocation and provides such individual a
23 reasonable opportunity to comment on the allo-
24 cation.

1 "(2) QUALIFIED ALLOCATION PLAN.—For pur-
2 poses of this subsection, the term 'qualified alloca-
3 tion plan' means any plan—
4 "(A) which sets forth selection criteria to
5 be used to determine priorities of the commer-
6 cial revitalization credit agency which are ap-
7 propriate to local conditions,
8 "(B) which considers—
9 "(i) the degree to which a project con-
10 tributes to the implementation of a strate-
11 gic plan that is devised for a renewal com-
12 munity through a citizen participation
13 process,
14 "(ii) the amount of any increase in
15 permanent, full-time employment by reason
16 of any project, and
17 "(iii) the active involvement of resi-
18 dents and nonprofit groups within the re-
19 newal community, and
20 "(C) which provides a procedure that the
21 agency (or its agent) will follow in monitoring
22 compliance with this section.
23 "(g) TERMINATION.—This section shall not apply to
24 any building placed in service after December 31, 2002.

1 **"SEC. 1400H. INCREASE IN EXPENSING UNDER SECTION 179.**

2 "(a) GENERAL RULE.—In the case of a renewal com-
3 munity business (as defined in section 1400C), for pur-
4 poses of section 179—

5 "(1) the limitation under section 179(b)(1)
6 shall be increased by the lesser of—

7 "(A) $35,000, or

8 "(B) the cost of section 179 property
9 which is qualified renewal property placed in
10 service during the taxable year, and

11 "(2) the amount taken into account under sec-
12 tion 179(b)(2) with respect to any section 179 prop-
13 erty which is qualified renewal property shall be 50
14 percent of the cost thereof.

15 "(b) RECAPTURE.—Rules similar to the rules under
16 section 179(d)(10) shall apply with respect to any quali-
17 fied renewal property which ceases to be used in a renewal
18 community by an renewal community business.

19 "(c) QUALIFIED RENEWAL PROPERTY.—

20 "(1) GENERAL RULE.—For purposes of this
21 section—

22 "(A) IN GENERAL.—The term 'qualified
23 renewal property' means any property to which
24 section 168 applies (or would apply but for sec-
25 tion 179) if—

"(i) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after the date on which the designation of the renewal community took effect,

"(ii) the original use of which in a renewal community commences with the taxpayer, and

"(iii) substantially all of the use of which is in a renewal community and is in the active conduct of a qualified business (as defined in section 1400C(d)) by the taxpayer in such renewal community.

"(B) SPECIAL RULE FOR SUBSTANTIAL RENOVATIONS.—In the case of any property which is substantially renovated by the taxpayer, the requirements of clauses (i) and (ii) of subparagraph (A) shall be treated as satisfied. For purposes of the preceding sentence, property shall be treated as substantially renovated by the taxpayer only if, during any 24-month period beginning after the date on which the designation of the renewal community took effect, additions to basis with respect to such property in the hands of the taxpayer exceed

1 the greater of (i) an amount equal to the ad-
2 justed basis at the beginning of such 24-month
3 period in the hands of the taxpayer, or (ii)
4 $5,000.
5 "(2) SPECIAL RULES FOR SALE-LEASEBACKS.—
6 For purposes of paragraph (1)(A)(ii), if property is
7 sold and leased back by the taxpayer within 3
8 months after the date such property was originally
9 placed in service, such property shall be treated as
10 originally placed in service not earlier than the date
11 on which such property is used under the lease-
12 back."

13 **SEC. 104. EVALUATION AND REPORTING REQUIREMENTS.**

14 Not later than the close of the fourth calendar year
15 after the year in which the Secretary of Housing and
16 Urban Development first designates an area as a renewal
17 community under section 1400 of the Internal Revenue
18 Code of 1986, and at the close of each fourth calendar
19 year thereafter, such Secretary shall prepare and submit
20 to the Congress a report on the effects of such designa-
21 tions in accomplishing the purposes of this Act.

22 **SEC. 105. INTERACTION WITH OTHER FEDERAL PROGRAMS.**

23 (a) TAX REDUCTIONS.—Any reduction of taxes, with
24 respect to any renewal community designated under sec-
25 tion 1400 of the Internal Revenue Code of 1986 (as added

1 by this title), under any plan of action under section
2 1400(d) of such Code shall be disregarded in determining
3 the eligibility of a State or local government for, or the
4 amount or extent of, any assistance or benefits under any
5 law of the United States (other than subchapter W of
6 chapter 1 of such Code).

7 (b) COORDINATION WITH RELOCATION ASSIST-
8 ANCE.—The designation of a renewal community under
9 section 1400 of such Code (as added by this title) shall
10 not—

11 (1) constitute approval of a Federal or Feder-
12 ally assisted program or project (within the meaning
13 of the Uniform Relocation Assistance and Real
14 Property Acquisition Policies Act of 1970 (42
15 U.S.C. 4601 et seq.)), or

16 (2) entitle any person displaced from real prop-
17 erty located in such community to any rights or any
18 benefits under such Act.

19 (c) RENEWAL COMMUNITIES TREATED AS LABOR
20 SURPLUS AREAS.—Any area which is designated as a re-
21 newal community under section 1400 of such Code (as
22 added by this title) shall be treated for all purposes under
23 Federal law as a labor surplus area.

1 **SEC. 106. DEDUCTION FOR CONTRIBUTIONS TO FAMILY DE-**
2 **VELOPMENT ACCOUNTS ALLOWABLE WHETH-**
3 **ER OR NOT TAXPAYER ITEMIZES.**

4 Subsection (a) of section 62 of the Internal Revenue
5 Code of 1986 (relating to adjusted gross income defined)
6 is amended by inserting after paragraph (15) the following
7 new paragraph:

8 "(16) FAMILY DEVELOPMENT ACCOUNTS.—The
9 deduction allowed by section 1400D."

10 **SEC. 107. ALLOWANCE OF COMMERCIAL REVITALIZATION**
11 **CREDIT.**

12 Section 46 of the Internal Revenue Code of 1986 (re-
13 lating to investment credit) is amended by striking "and"
14 at the end of paragraph (2), by striking the period at the
15 end of paragraph (3) and inserting ", and", and by adding
16 at the end the following new paragraph:

17 "(4) the commercial revitalization credit pro-
18 vided under section 1400G."

19 **SEC. 108. CONFORMING AND CLERICAL AMENDMENTS.**

20 (a) BASIS ADJUSTMENT FOR CERTAIN STOCK.—Sub-
21 section (a) of section 1016 of the Internal Revenue Code
22 of 1986 (relating to adjustments to basis) is amended by
23 striking "and" at the end of paragraph (24), by striking
24 the period at the end of paragraph (25) and inserting ",
25 and"; and by adding at the end the following new para-
26 graph:

1 "(26) to the extent provided in section
2 1400B(e), in the case of stock with respect to which
3 a deduction was allowed or allowable under section
4 1400B(a)."
5 (b) TAX ON EXCESS CONTRIBUTIONS.—
6 (1) TAX IMPOSED.—Subsection (a) of section
7 4973 of such Code is amended by striking "or" at
8 the end of paragraph (1), adding "or" at the end of
9 paragraph (2), and inserting after paragraph (2) the
10 following new paragraph:
11 "(3) a family development account (within the
12 meaning of section 1400D(e)),"
13 (2) EXCESS CONTRIBUTIONS.—Section 4973 of
14 such Code is amended by adding at the end the fol-
15 lowing new subsection:
16 "(d) FAMILY DEVELOPMENT ACCOUNTS.—For pur-
17 poses of this section, in the case of a family development
18 account, the term 'excess contributions' means the sum
19 of—
20 "(1) the excess (if any) of—
21 "(A) the amount contributed for the tax-
22 able year to the account (other than a qualified
23 rollover, as defined in section 1400D(c)(7), or
24 a contribution under section 1400E), over

"(B) the amount allowable as a deduction under section 1400D for such contributions, and

"(2) the amount determined under this subsection for the preceding taxable year reduced by the sum of—

"(A) the distributions out of the account for the taxable year which were included in the gross income of the payee under section 1400D(b)(1),

"(B) the distributions out of the account for the taxable year to which rules similar to the rules of section 408(d)(5) apply by reason of section 1400D(b)(3), and

"(C) the excess (if any) of the maximum amount allowable as a deduction under section 1400D for the taxable year over the amount contributed to the account for the taxable year (other than a contribution under section 1400E).

For purposes of this subsection, any contribution which is distributed from the family development account in a distribution to which rules similar to the rules of section 408(d)(4) apply by reason of section 1400D(b)(3) shall be treated as an amount not contributed."

1 (3) HEADING.—The heading of section 4973 of
2 such Code is amended by inserting "**FAMILY DE-**
3 **VELOPMENT ACCOUNTS,**" after "**CONTRACTS,**".
4 (c) TAX ON PROHIBITED TRANSACTIONS.—Section
5 4975 of such Code is amended—
6 (1) by adding at the end of subsection (c) the
7 following new paragraph:
8 "(4) SPECIAL RULE FOR FAMILY DEVELOP-
9 MENT ACCOUNTS.—An individual for whose benefit a
10 family development account is established and any
11 contributor to such account shall be exempt from the
12 tax imposed by this section with respect to any
13 transaction concerning such account (which would
14 otherwise be taxable under this section) if, with re-
15 spect to such transaction, the account ceases to be
16 a family development account by reason of the appli-
17 cation of section 1400D(d)(2) to such account.",
18 and
19 (2) by inserting ", a family development ac-
20 count described in section 1400D(e)," in subsection
21 (e)(1) after "described in section 408(a)".
22 (d) INFORMATION RELATING TO CERTAIN TRUSTS
23 AND ANNUITY PLANS.—Subsection (c) of section 6047 of
24 such Code is amended—

1 (1) by inserting "or section 1400D" after "sec-
2 tion 219", and
3 (2) by inserting ", of any family development
4 account described in section 1400D(e),", after "sec-
5 tion 408(a)".
6 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-
7 TION.—Clause (i) of section 6104(a)(1)(B) of such Code
8 is amended by inserting "a family development account
9 described in section 1400D(e)," after "section 408(a),".
10 (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-
11 VELOPMENT ACCOUNTS.—Section 6693 of such Code is
12 amended—
13 (1) by inserting "**OR ON FAMILY DEVELOP-**
14 **MENT ACCOUNTS**" after "**ANNUITIES**" in the
15 heading of such section, and
16 (2) by adding at the end of subsection (a) the
17 following new sentence: "The person required by sec-
18 tion 1400D(g)(7) to file a report regarding a family
19 development account at the time and in the manner
20 required by such section shall pay a penalty of $50
21 for each failure unless it is shown that such failure
22 is due to reasonable cause."
23 (g) CONFORMING AMENDMENTS REGARDING COM-
24 MERCIAL REVITALIZATION CREDIT.—

1 (1) Section 39(d) of such Code is amended by
2 adding at the end the following new paragraph:
3 "(7) NO CARRYBACK OF SECTION 1400G CREDIT
4 BEFORE DATE OF ENACTMENT.—No portion of the
5 unused business credit for any taxable year which is
6 attributable to any commercial revitalization credit
7 determined under section 1400G may be carried
8 back to a taxable year ending before the date of the
9 enactment of section 1400G."
10 (2) Subparagraph (B) of section 48(a)(2) of
11 such Code is amended by inserting "or commercial
12 revitalization" after "rehabilitation" each place it
13 appears in the text and heading.
14 (3) Subparagraph (C) of section 49(a)(1) of
15 such Code is amended by striking "and" at the end
16 of clause (ii), by striking the period at the end of
17 clause (iii) and inserting ", and", and by adding at
18 the end the following new clause:
19 "(iv) the portion of the basis of any
20 qualified revitalization building attributable
21 to qualified revitalization expenditures."
22 (4) Paragraph (2) of section 50(a) of such Code
23 is amended by inserting "or 1400G(d)(2)" after
24 "section 47(d)" each place it appears.

1 (5) Subparagraph (A) of section 50(b)(2) of
2 such Code is amended by inserting "or qualified re-
3 vitalization building (respectively)" after "qualified
4 rehabilitated building".
5 (6) Subparagraph (B) of section 50(a)(2) of
6 such Code is amended by adding at the end the fol-
7 lowing new sentence: "A similar rule shall apply for
8 purposes of section 1400G."
9 (7) Paragraph (2) of section 50(b) of such Code
10 is amended by striking "and" at the end of subpara-
11 graph (C), by striking the period at the end of sub-
12 paragraph (D) and inserting "; and", and by adding
13 at the end the following new subparagraph:
14 "(E) a qualified revitalization building (as
15 defined in section 1400G) to the extent of the
16 portion of the basis which is attributable to
17 qualified revitalization expenditures (as defined
18 in section 1400G)."
19 (8) Subparagraph (C) of section 50(b)(4) of
20 such Code is amended—
21 (A) by inserting "or commercial revitaliza-
22 tion" after "rehabilitated" in the text and head-
23 ing, and
24 (B) by inserting "or commercial revitaliza-
25 tion" after "rehabilitation".

1 (9) Subparagraph (C) of section 469(i)(3) is
2 amended—
3 (A) by inserting "or section 1400G" after
4 "section 42"; and
5 (B) by striking "CREDIT" in the heading
6 and inserting "AND COMMERCIAL REVITALIZA-
7 TION CREDITS".
8 (h) CLERICAL AMENDMENTS.—
9 (1) The table of subchapters for chapter 1 of
10 the Internal Revenue Code of 1986 is amended by
11 adding at the end the following new item:

"Subchapter W. Renewal Communities."

12 (2) The table of sections for chapter 43 of such
13 Code is amended by striking the item relating to sec-
14 tion 4973 and inserting the following new item:

"Sec. 4973. Tax on excess contributions to individual retirement accounts, certain section 403(b) contracts, family development accounts, and certain individual retirement annuities."

15 (3) The table of sections for part I of sub-
16 chapter B of chapter 68 of such Code is amended
17 by striking the item relating to section 6693 and in-
18 serting the following new item:

"Sec. 6693. Failure to provide reports on individual retirement accounts or annuities or on family development accounts; overstatement of designated nondeductible contributions."

TITLE II—ADDITIONAL TAX PROVISIONS

SEC. 201. WORK OPPORTUNITY TAX CREDIT.

(a) AMOUNT OF CREDIT.—Subsection (a) of section 51 (relating to amount of credit) is amended by striking "40 percent" and inserting "35 percent".

(b) MEMBERS OF TARGETED GROUPS.—Subsection (d) of section 51 is amended to read as follows:

"(d) MEMBERS OF TARGETED GROUPS.—For purposes of this subpart—

"(1) IN GENERAL.—An individual is a member of a targeted group if such individual is—

"(A) a qualified IV–A recipient,

"(B) a qualified veteran,

"(C) a qualified ex-felon,

"(D) a high-risk youth,

"(E) a vocational rehabilitation referral,

"(F) a qualified summer youth employee, or

"(G) a qualified food stamp recipient.

"(2) QUALIFIED IV–A RECIPIENT.—

"(A) IN GENERAL.—The term 'qualified IV–A recipient' means any individual who is certified by the designated local agency as being a member of a family receiving assistance under

1 an IV–A program for at least a 9-month period
2 ending during the 9-month period ending on the
3 hiring date.
4 "(B) IV–A PROGRAM.—For purposes of
5 this paragraph, the term 'IV–A program' means
6 any program providing assistance under a State
7 plan approved under part A of title IV of the
8 Social Security Act (relating to assistance for
9 needy families with minor children) and any
10 successor of such program.
11 "(3) QUALIFIED VETERAN.—
12 "(A) IN GENERAL.—The term 'qualified
13 veteran' means any veteran who is certified by
14 the designated local agency as being—
15 "(i) a member of a family receiving
16 assistance under an IV–A program (as de-
17 fined in paragraph (2)(B)) for at least a 9-
18 month period ending during the 12-month
19 period ending on the hiring date, or
20 "(ii) a member of a family receiving
21 assistance under a food stamp program
22 under the Food Stamp Act of 1977 for at
23 least a 3-month period ending during the
24 12-month period ending on the hiring date.

1 "(B) VETERAN.—For purposes of subpara-
2 graph (A), the term 'veteran' means any indi-
3 vidual who is certified by the designated local
4 agency as—
5 "(i)(I) having served on active duty
6 (other than active duty for training) in the
7 Armed Forces of the United States for a
8 period of more than 180 days, or
9 "(II) having been discharged or re-
10 leased from active duty in the Armed
11 Forces of the United States for a service-
12 connected disability, and
13 "(ii) not having any day during the
14 60-day period ending on the hiring date
15 which was a day of extended active duty in
16 the Armed Forces of the United States.
17 For purposes of clause (ii), the term 'extended
18 active duty' means a period of more than 90
19 days during which the individual was on active
20 duty (other than active duty for training).
21 "(4) QUALIFIED EX-FELON.—The term 'quali-
22 fied ex-felon' means any individual who is certified
23 by the designated local agency—

1 "(A) as having been convicted of a felony
2 under any statute of the United States or any
3 State,
4 "(B) as having a hiring date which is not
5 more than 1 year after the last date on which
6 such individual was so convicted or was released
7 from prison, and
8 "(C) as being a member of a family which
9 had an income during the 6 months imme-
10 diately preceding the earlier of the month in
11 which such income determination occurs or the
12 month in which the hiring date occurs, which,
13 on an annual basis, would be 70 percent or less
14 of the Bureau of Labor Statistics lower living
15 standard.
16 Any determination under subparagraph (C) shall be
17 valid for the 45-day period beginning on the date
18 such determination is made.
19 "(5) HIGH-RISK YOUTH.—
20 "(A) IN GENERAL.—The term 'high-risk
21 youth' means any individual who is certified by
22 the designated local agency—
23 "(i) as having attained age 18 but not
24 age 25 on the hiring date, and

1 "(ii) as having his principal place of
2 abode within a renewal community.
3 "(B) YOUTH MUST CONTINUE TO RESIDE
4 IN RENEWAL COMMUNITY.—In the case of a
5 high-risk youth, the term 'qualified wages' shall
6 not include wages paid or incurred for services
7 performed while such youth's principal place of
8 abode is outside a renewal community.
9 "(6) VOCATIONAL REHABILITATION REFER-
10 RAL.—The term 'vocational rehabilitation referral'
11 means any individual who is certified by the des-
12 ignated local agency as—
13 "(A) having a physical or mental disability
14 which, for such individual, constitutes or results
15 in a substantial handicap to employment, and
16 "(B) having been referred to the employer
17 upon completion of (or while receiving) rehabili-
18 tative services pursuant to—
19 "(i) an individualized written rehabili-
20 tation plan under a State plan for voca-
21 tional rehabilitation services approved
22 under the Rehabilitation Act of 1973, or
23 "(ii) a program of vocational rehabili-
24 tation carried out under chapter 31 of title
25 38, United States Code.

1 "(7) QUALIFIED SUMMER YOUTH EMPLOYEE.—
2 "(A) IN GENERAL.—The term 'qualified
3 summer youth employee' means any individ-
4 ual—
5 "(i) who performs services for the em-
6 ployer between May 1 and September 15,
7 "(ii) who is certified by the designated
8 local agency as having attained age 16 but
9 not 18 on the hiring date (or if later, on
10 May 1 of the calendar year involved),
11 "(iii) who has not been an employee
12 of the employer during any period prior to
13 the 90-day period described in subpara-
14 graph (B)(i), and
15 "(iv) who is certified by the des-
16 ignated local agency as having his principal
17 place of abode within a renewal commu-
18 nity.
19 "(B) SPECIAL RULES FOR DETERMINING
20 AMOUNT OF CREDIT.—For purposes of applying
21 this subpart to wages paid or incurred to any
22 qualified summer youth employee—
23 "(i) subsection (b)(2) shall be applied
24 by substituting 'any 90-day period between
25 May 1 and September 15' for 'the 1-year

1 period beginning with the day the individ-
2 ual begins work for the employer', and
3 "(ii) subsection (b)(3) shall be applied
4 by substituting '$3,000' for '$6,000'.
5 The preceding sentence shall not apply to an in-
6 dividual who, with respect to the same em-
7 ployer, is certified as a member of another tar-
8 geted group after such individual has been a
9 qualified summer youth employee.
10 "(C) YOUTH MUST CONTINUE TO RESIDE
11 IN RENEWAL COMMUNITY.—Paragraph (5)(B)
12 shall apply for purposes of this paragraph.
13 "(8) QUALIFIED FOOD STAMP RECIPIENT.—The
14 term 'qualified food stamp recipient' means any indi-
15 vidual who is certified by the designated local agen-
16 cy—
17 "(A) as having attained age 18 but not age
18 25 on the hiring date, and
19 "(B) as being a member of a family receiv-
20 ing assistance under a food stamp program
21 under the Food Stamp Act of 1977 for at least
22 a 3-month period ending during the 12-month
23 period ending on the hiring date.

1 "(9) HIRING DATE.—The term 'hiring date'
2 means the day the individual is hired by the em-
3 ployer.
4 "(10) DESIGNATED LOCAL AGENCY.—The term
5 'designated local agency' means a State employment
6 security agency established in accordance with the
7 Act of June 6, 1933, as amended (29 U.S.C.
8 4949n).
9 "(11) SPECIAL RULES FOR CERTIFICATIONS.—
10 "(A) IN GENERAL.—An individual shall
11 not be treated as a member of a targeted group
12 unless—
13 "(i) on or before the day on which
14 such individual begins work for the em-
15 ployer, the employer has received a certifi-
16 cation from a designated local agency that
17 such individual is a member of a targeted
18 group, or
19 "(ii)(I) on or before the day the indi-
20 vidual is offered employment with the em-
21 ployer, a pre-screening notice is completed
22 by the employer with respect to such indi-
23 vidual, and
24 "(II) not later than the 14th day after
25 the individual begins work for the em-

1 ployer, the employer submits such notice,
2 signed by the employer and the individual
3 under penalties of perjury, to the des-
4 ignated local agency as part of a written
5 request for such a certification from such
6 agency.
7 For purposes of this paragraph, the term 'pre-
8 screening notice' means a document (in such
9 form as the Secretary shall prescribe) which
10 contains information provided by the individual
11 on the basis of which the employer believes that
12 the individual is a member of a targeted group.
13 "(B) INCORRECT CERTIFICATIONS.—If—
14 "(i) an individual has been certified
15 by a designated local agency as a member
16 of a targeted group, and
17 "(ii) such certification is incorrect be-
18 cause it was based on false information
19 provided by such individual,
20 the certification shall be revoked and wages
21 paid by the employer after the date on which
22 notice of revocation is received by the employer
23 shall not be treated as qualified wages.
24 "(C) EXPLANATION OF DENIAL OF RE-
25 QUEST.—If a designated local agency denies a

1 request for certification of membership in a tar-
2 geted group, such agency shall provide to the
3 person making such request a written expla-
4 nation of the reasons for such denial."
5 (c) MINIMUM EMPLOYMENT PERIOD.—Paragraph
6 (3) of section 51(i) (relating to certain individuals ineli-
7 gible) is amended to read as follows:
8 "(3) INDIVIDUALS NOT MEETING MINIMUM EM-
9 PLOYMENT PERIOD.—No wages shall be taken into
10 account under subsection (a) with respect to any in-
11 dividual unless such individual either—
12 "(A) is employed by the employer at least
13 180 days (20 days in the case of a qualified
14 summer youth employee), or
15 "(B) has completed at least 250 hours
16 (120 hours in the case of a qualified summer
17 youth employee) of services performed for the
18 employer."
19 (d) TERMINATION PERIOD.—Paragraph (4) of sec-
20 tion 51(c) (relating to wages defined) is amended to read
21 as follows:
22 "(4) TERMINATION PERIOD.—The term 'wages'
23 shall not include any amount paid or incurred to an
24 individual who begins work for the employer after
25 December 31, 1994, and before January 1, 1996."

1 (e) REDESIGNATION OF CREDIT.—

2 (1) Sections 38(b)(2) and 51(a) are each
3 amended by striking "targeted jobs credit" and in-
4 serting "work opportunity credit".

5 (2) The subpart heading for subpart F of part
6 IV of subchapter A of chapter 1 is amended by
7 striking "**Targeted Jobs Credit**" and inserting
8 "**Work Opportunity Credit**".

9 (3) The table of subparts for such part IV is
10 amended by striking "targeted jobs credit" and in-
11 serting "work opportunity credit".

12 (4) The heading for paragraph (3) of section
13 1396(c) is amended by striking "TARGETED JOBS
14 CREDIT" and inserting "WORK OPPORTUNITY CRED-
15 IT".

16 (f) TECHNICAL AMENDMENT.—Paragraph (1) of sec-
17 tion 51(c) is amended by striking ", subsection
18 (d)(8)(D),".

19 (g) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to individuals who begin work for
21 the employer after December 31, 1995.

22 **SEC. 202. CREDIT FOR CERTAIN CHARITABLE CONTRIBU-**
23 **TIONS.**

24 (a) IN GENERAL.—Subpart A of part IV of sub-
25 chapter A of chapter 1 of the Internal Revenue Code of

1986 (relating to nonrefundable personal credits) is amended by adding at the end the following new section:

"SEC. 26A. CREDIT FOR CERTAIN CHARITABLE CONTRIBUTIONS.

"(a) IN GENERAL.—In the case of an individual, there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to 75 percent of the qualified charitable contributions which are paid by the taxpayer during the taxable year.

"(b) LIMITATION.—The credit allowed by subsection (a) for the taxable year shall not exceed $200 ($400 in the case of a joint return).

"(c) QUALIFIED CHARITABLE CONTRIBUTION.—For purposes of this section, the term 'qualified charitable contribution' means any charitable contribution (as defined in section 170(c)) made in cash to a qualified charity aiding the poor.

"(d) QUALIFIED CHARITY AIDING THE POOR.—

"(1) IN GENERAL.—For purposes of this section, the term 'qualified charity aiding the poor' means, for any taxable year, any organization described in section 501(c)(3) and exempt from tax under section 501(a)—

1 "(A) which is certified by the Secretary as
2 meeting the requirements of paragraphs (2),
3 (3), and (4),
4 "(B) which is organized under the laws of
5 the United States or of any State in which the
6 organization is qualified to operate, and
7 "(C) which is required, or elects to be
8 treated as being required, to file returns under
9 section 6033.
10 "(2) CHARITY MUST PRIMARILY ASSIST POOR
11 INDIVIDUALS.—
12 "(A) IN GENERAL.—An organization meets
13 the requirements of this paragraph only if the
14 predominant activity of such organization is the
15 provision of direct services to individuals whose
16 annual incomes generally do not exceed 185
17 percent of the official poverty line (as defined
18 by the Office of Management and Budget).
19 "(B) FOOD AID AND HOMELESS SHEL-
20 TERS.—Except as otherwise provided in regula-
21 tions, for purposes of subparagraph (A), serv-
22 ices to individuals in the form of—
23 "(i) temporary donations of food or
24 meals, or

1 "(ii) temporary shelter to homeless in-
2 dividuals,
3 shall be treated as provided to individuals de-
4 scribed in subparagraph (A) if the location and
5 operation of such services are such that the
6 service provider may reasonably conclude that
7 the beneficiaries of such services are predomi-
8 nantly individuals described in subparagraph
9 (A).
10 "(3) EXPENDITURES FOR CHARITABLE SERV-
11 ICES TO THE POOR.—
12 "(A) IN GENERAL.—An organization meets
13 the requirements of this paragraph only if for
14 the immediately preceding taxable year (and the
15 Secretary reasonably expects that for the cur-
16 rent taxable year), except as provided in sub-
17 paragraph (B), all annual expenditures of the
18 organization are used to provide the direct serv-
19 ices referred to in paragraph (2).
20 "(B) PERMISSIBLE EXPENDITURES FOR
21 ADMINISTRATION AND FUNDRAISING.—An orga-
22 nization shall not be treated as failing to meet
23 the requirements of subparagraph (A) with re-
24 spect to any taxable year by reason of the fact
25 that 25 percent or less of the annual aggregate

1 expenditures of the organization for such tax-
2 able year are—
3 "(i) administrative expenditures in
4 support of direct services referred to in
5 paragraph (2), and
6 "(ii) expenditures for purposes of
7 fundraising on behalf of the organization
8 providing direct services referred to in
9 paragraph (2).
10 "(4) LIMITATION ON POLITICAL ACTIVITY.—An
11 organization meets the requirements of this para-
12 graph only if for the immediately preceding taxable
13 year (and the Secretary reasonably expects that for
14 the current taxable year) the organization does not
15 engage in any of the following:
16 "(A) Activity for the purpose of influencing
17 legislation.
18 "(B) Litigation on behalf of any individual
19 referred to in paragraph (2).
20 "(C) Voter registration, political organiz-
21 ing, public policy advocacy, or public policy re-
22 search.
23 "(5) SPECIAL RULE FOR NEW ORGANIZA-
24 TIONS.—In the case of an organization which has no
25 preceding taxable year, paragraphs (3) and (4) shall

1 be applied without regard to the words 'for the im-
2 mediately preceding taxable year'.
3 "(e) TIME WHEN CONTRIBUTIONS DEEMED
4 MADE.—For purposes of this section, at the election of
5 the taxpayer, a contribution which is made not later than
6 the time prescribed by law for filing the return for the
7 taxable year (not including extensions thereof) shall be
8 treated as made on the last day of such taxable year.
9 "(f) COORDINATION WITH DEDUCTION FOR CHARI-
10 TABLE CONTRIBUTIONS.—
11 "(1) CREDIT IN LIEU OF DEDUCTION.—The
12 credit provided by subsection (a) for any qualified
13 charitable contribution shall be in lieu of any deduc-
14 tion otherwise allowable under this chapter for such
15 contribution.
16 "(2) ELECTION TO HAVE SECTION NOT
17 APPLY.—A taxpayer may elect for any taxable year
18 to have this section not apply."
19 (b) PUBLIC INSPECTION OF ANNUAL RETURNS.—
20 Subsection (e) of section 6104 of such Code (relating to
21 public inspection of certain annual returns and applica-
22 tions for exemption) is amended by adding at the end the
23 following new paragraph:

1 "(3) CHARITIES RECEIVING CREDITABLE CON-
2 TRIBUTIONS REQUIRED TO PROVIDE COPIES OF AN-
3 NUAL RETURN.—
4 "(A) IN GENERAL.—Every qualified char-
5 ity aiding the poor (as defined in section
6 26A(d)) shall, upon request of an individual
7 made at an office where such organization's an-
8 nual return filed under section 6033 is required
9 under paragraph (1) to be available for inspec-
10 tion, provide a copy of such return to such indi-
11 vidual without charge other than a reasonable
12 fee for any reproduction and mailing costs. If
13 the request is made in person, such copies shall
14 be provided immediately and, if made other
15 than in person, shall be provided within 30
16 days.
17 "(B) PERIOD OF AVAILABILITY.—Subpara-
18 graph (A) shall apply only during the 3-year pe-
19 riod beginning on the filing date (as defined in
20 paragraph (1)(D)) of the return requested."
21 (c) CLERICAL AMENDMENT.—The table of sections
22 for subpart A of part IV of subchapter A of chapter 1
23 of such Code is amended by adding at the end the follow-
24 ing new item:

"Sec. 26A. Credit for certain charitable contributions."

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to contributions made after the
3 date of the enactment of this Act.

4 **SEC. 203. DEDUCTION FOR CHARITABLE CONTRIBUTIONS**
5 **TO BE ALLOWED TO INDIVIDUALS WHO DO**
6 **NOT ITEMIZE DEDUCTIONS.**

7 (a) IN GENERAL.—Section 170 of the Internal Reve-
8 nue Code of 1986 (relating to charitable, etc., contribu-
9 tions and gifts) is amended by redesignating subsection
10 (m) as subsection (n) and by inserting after subsection
11 (l) the following new subsection:

12 "(m) DEDUCTION FOR INDIVIDUALS NOT ITEMIZING
13 DEDUCTIONS.—In the case of an individual who does not
14 itemize deductions for the taxable year, the amount allow-
15 able under subsection (a) for the taxable year shall be
16 taken into account as a direct charitable deduction under
17 section 63."

18 (b) DIRECT CHARITABLE DEDUCTION.—

19 (1) IN GENERAL.—Subsection (b) of section 63
20 of such Code is amended by striking "and" at the
21 end of paragraph (1), by striking the period at the
22 end of paragraph (2) and inserting ", and", and by
23 adding at the end the following new paragraph:

24 "(3) the deduction for charitable contributions
25 under section 170(m)."

(2) CONFORMING AMENDMENT.—Subsection (d) of section 63 of such Code is amended by striking "and" at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting ", and", and by adding at the end the following new paragraph:

"(3) the deduction for charitable contributions under section 170(m)."

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning after December 31, 1995.

TITLE IV—LOW-INCOME EDUCATIONAL OPPORTUNITY SCHOLARSHIP PROGRAM

SEC. 401. SHORT TITLE.

This title may be cited as the "Low-Income Educational Opportunity Act of 1996".

SEC. 402. FINDINGS; PRECEDENTS.

(a) FINDINGS.—The Congress finds the following:

(1) Significant improvements in the education of educationally deprived children can be accomplished by—

(A) increasing educational opportunities for these children by expanding the range of educational choices that best meet their needs;

1 (B) fostering diversity and competition
2 among school programs for these children;
3 (C) providing the families of these children
4 more of the educational choices already avail-
5 able to affluent families; and
6 (D) enhancing the quality of American
7 education in general by increasing parental in-
8 volvement in the program and the direction of
9 the education of these children.
10 (2) Costs are often much lower in private
11 schools than corresponding costs in schools operated
12 solely by the Government.
13 (3) Not all children are alike and therefore
14 there is no one school or program that fits the needs
15 of all children.
16 (4) The formation of sound values and moral
17 character is crucial to helping young people escape
18 from lives of poverty, family break-up, drug abuse,
19 crime, and school failure.
20 (5) In addition to offering knowledge and skills,
21 education should positively contribute to the forma-
22 tion of the internal norms and values which are vital
23 to a child's success in life and to the well being of
24 society.

1 (6) Schools should help to provide young people
2 with a sound moral foundation which is consistent
3 with the values of their parents. To find such a
4 school, parents need a full range of choice to deter-
5 mine where their children can best be educated.
6 (b) PRECEDENTS.—The United States Supreme
7 Court has determined that programs giving parents choice
8 and increased input in their children's education, includ-
9 ing the choice of a religious education, do not violate the
10 constitution. The Court has held that as long as the bene-
11 ficiary, not the Government, decides where education
12 funds will be spent on such individual's behalf, Govern-
13 ment funds can be used for education in a religious insti-
14 tution because the Government has neither advanced nor
15 hindered a particular religion and therefore has not vio-
16 lated the establishment clause of the first amendment. Su-
17 preme Court precedents include—
18 (1) Wisconsin v. Yoder, 406 U.S. 205; Pierce v.
19 Society of Sisters, 268 U.S. 510; Meyer v. Ne-
20 braska, 262 U.S. 390 which held that parents have
21 the primary role in and are the primary decision
22 makers in all areas regarding the education and up-
23 bringing of their children;
24 (2) Mueller v. Allen, 463 U.S. 388 which de-
25 clared a Minnesota tax deduction program that pro-

1 vided State income tax benefits for educational ex-
2 penditures by parents, including tuition in religiously
3 affiliated schools, constitutional;
4 (3) Witters v. Department of Services for the
5 Blind, 474 U.S. 481 in which the Court ruled unani-
6 mously that public funds for the vocational training
7 of the blind could be used at a Bible college for min-
8 istry training;
9 (4) Zobrest v. Catalina Foothills School District
10 (113 S. Ct. 2462) which held that a deaf child could
11 receive an interpreter, paid for by the Government,
12 in a private religiously affiliated school under the In-
13 dividuals With Disabilities Education Act. The case
14 held that providing an interpreter in a religiously af-
15 filiated school did not violate the establishment
16 clause.
17 **SEC. 403. PURPOSES.**
18 The purposes of this title are the following:
19 (1) To assist renewal communities—
20 (A) in giving children from low-income
21 families more choices in selecting elementary
22 and secondary schools that children from
23 wealthier families already have;
24 (B) in improving schools and other aca-
25 demic programs by financially enhancing the

1 consumer power of low-income families to
2 choose the schools and programs that they de-
3 termine best fit the needs of their children;
4 (C) in engaging low-income parents more
5 fully in their children's schooling;
6 (D) in providing low income parents with
7 a wide range of choice in selecting a school for
8 their children, including public schools, private
9 schools, and private religious schools, without
10 promoting or discriminating against the choice
11 of a particular type of school; and
12 (E) in combating crime, drugs, and illegit-
13 imacy in low-income communities by encourag-
14 ing the restoration of moral character.
15 (2) To demonstrate the effects of State and
16 local programs that give low-income families more of
17 the choices in schools (public, private, or religious)
18 that wealthier families already have.
19 **SEC. 404. PLAN SUBMISSION; REQUIREMENTS.**
20 (a) IN GENERAL.—A community designated as a re-
21 newal community under section 1400 of the Internal Reve-
22 nue Code of 1986 shall submit a plan to the Secretary
23 not later than 60 days after receiving such designation.
24 Such plan shall include the following:

1 (1) A designation of a public or private office,
2 agency, or organization that will be responsible for
3 the establishment and operation of the scholarship
4 program and for the distribution of assistance to
5 parents.
6 (2) A description of the actions to be taken by
7 the State or renewal community to increase edu-
8 cational options for low-income children, including—
9 (A) public school choice programs;
10 (B) private school choice programs;
11 (C) quasi-public or charter school pro-
12 grams; and
13 (D) programs privatizing services such as
14 transportation, administration, or food prepara-
15 tion or distribution.
16 (3) A description of State and local funds (in-
17 cluding tax benefits) and non-governmental funds, if
18 any, that will be available to supplement scholarship
19 funds provided under this title.
20 (4) A description of the procedures the appli-
21 cant will use, including timely and meaningful con-
22 sultation with private school officials, to encourage
23 public and private elementary and secondary schools
24 to participate in the program and to ensure maxi-
25 mum educational choices for the parents of eligible

1 children and for other children residing in the re-
2 newal community.
3 (5) A description of how the applicant will in-
4 form parents and schools of the scholarship program
5 and of the choices available to parents under such
6 program.
7 (6) A description of procedures the applicant
8 will use to determine which eligible children will re-
9 ceive assistance.
10 (7) An assurance that the applicant will main-
11 tain such records relating to the scholarship pro-
12 gram as the Secretary may require and will comply
13 with the Secretary's reasonable requests for informa-
14 tion about the program.
15 (b) REQUIREMENTS.—In addition to the require-
16 ments described in subsection (a), a community that is
17 designated as a renewal community shall establish and op-
18 erate a Low-Income Educational Opportunity Scholarship
19 program (referred to in this title as "scholarship pro-
20 gram") and distribute scholarships to parents during the
21 first school year beginning on or after the 90th day follow-
22 ing the day of such designation. Such program shall meet
23 the following requirements:
24 (1) To provide a choice of schools to families
25 with children who reside in the renewal community.

1 (2) To provide assistance to parents of eligible
2 children to attend public and private elementary and
3 secondary schools, including religious schools that
4 serve the designated renewal community.
5 (3) To allow all or any lawfully operating public
6 and private elementary or secondary schools, includ-
7 ing religious schools that serve the renewal commu-
8 nity to participate in a scholarship program under
9 this title if such a school so chooses, subject to the
10 qualifications specified in section 409.
11 (c) COMPLIANCE.—The Secretary shall notify the
12 Secretary of Housing and Urban Development if a renewal
13 community fails to comply with the requirements of sub-
14 sections (a) or (b). Upon such notification, the Secretary
15 of Housing and Urban Development may begin a review
16 for possible revocation of renewal community designation.
17 **SEC. 405. USES OF FUNDS.**
18 A community that receives renewal community des-
19 ignation under section 1400 of the Internal Revenue Code
20 of 1986 shall use funds received under this title—
21 (1) to provide for scholarships to assist in the
22 payment of tuition and fees at a scholarship school
23 selected by the parents of an eligible child, and to
24 pay the reasonable costs of transportation of eligible
25 children to scholarship or alternative public schools;

1 (2) not to exceed 10 percent, to pay the cost of
2 administering the educational opportunity scholar-
3 ship program; or
4 (3) in accordance with section 412, if an excess
5 amount of funds are available, to pay for the edu-
6 cation of children from low-income families attend-
7 ing public schools.

8 **SEC. 406. SCHOLARSHIP PROGRAM.**

9 (a) ELIGIBLE CHILDREN.—From the amounts made
10 available under this title, each renewal community shall
11 provide, to the extent practicable, assistance to a parent
12 who has applied for assistance and has a child who—
13 (1) is a member of a family that has a total
14 family income that does not exceed 185 percent of
15 the poverty line;
16 (2) resides in the renewal community; and
17 (3)(A) seeks to attend an alternative public ele-
18 mentary or secondary school that participates in the
19 scholarship program; or
20 (B) seeks to attend a private or religious ele-
21 mentary or secondary school that participates in the
22 scholarship program.
23 (b) SELECTION AMONG ELIGIBLE CHILDREN.—
24 (1) IN GENERAL.—In the event that a renewal
25 community has insufficient funds to provide assist-

1 ance to all eligible children whose parents have ap-
2 plied for assistance, the renewal community may se-
3 lect students according to—
4 (A) random selection;
5 (B) the date of the parents' application for
6 assistance with preference given to parents who
7 applied earlier; or
8 (C) any other selection criteria developed
9 by the renewal community, subject to the limi-
10 tations provided in subsection (c).
11 (2) PRIORITY.—A renewal community shall give
12 priority to a parent for a student who received as-
13 sistance pursuant to this title during the preceding
14 school year.
15 (c) CRITERIA FOR SELECTION.—The renewal com-
16 munity may choose any criteria it wishes in order to make
17 the selection described in subsection (b), except that such
18 criteria shall not—
19 (1) discriminate on the basis of race or religion;
20 (2) discriminate on the basis of the school or
21 type of school selected by the parent; or
22 (3) discriminate against an eligible child be-
23 cause the parent of the child has chosen to receive
24 a scholarship to attend an eligible private school
25 under section 408(b)(1) of this title rather than

1 transportation assistance to attend an alternative
2 public school under section 408(b)(2).
3 (d) VALUE OF EACH SCHOLARSHIP.—The renewal
4 community shall determine the value of scholarships pro-
5 vided each semester within the renewal community, except
6 that the value of a scholarship provided by a renewal com-
7 munity shall not be less than the minimum value specified
8 in paragraph (1) and shall not exceed the maximum value
9 specified in paragraph (2).
10 (1) MINIMUM VALUE.—The minimum value of
11 a scholarship for a semester shall be the lesser of—
12 (A) 60 percent of the average per pupil
13 cost per semester in the public school system or
14 systems in the renewal community in the pre-
15 ceding school year; or
16 (B) the regular tuition and education fees
17 charged per semester by the scholarship school
18 chosen by the parent.
19 (2) MAXIMUM VALUE.—The maximum value of
20 a scholarship for a semester shall be the average per
21 pupil cost per semester in the public school system
22 or systems in the renewal community in the preced-
23 ing school year.
24 (3) DISABILITY.—If a student has a disability,
25 the average per pupil cost per semester in the public

1 school system or systems in the renewal community
2 in the preceding year shall be calculated using the
3 same cost for students with the same special needs
4 or handicapped category for such period of time.
5 (e) USE OF SCHOLARSHIPS, TRANSPORTATION AS-
6 SISTANCE.—Funds used to provide assistance to a parent
7 may be used by a parent only to pay for tuition and fees
8 or transportation costs at participating schools.

9 **SEC. 407. ALLOCATION OF FUNDS AMONG RENEWAL COM-**
10 **MUNITIES.**

11 (a) IN GENERAL.—The funds authorized under sec-
12 tion 417 shall be allocated to each renewal community by
13 the Secretary of the Treasury as follows:
14 (1) 80 percent shall be allocated among renewal
15 communities according to the formula provided in
16 subsection (b).
17 (2) 20 percent shall be allocated among renewal
18 communities according to the formula provided in
19 subsection (c).
20 (b) BASIC FUNDING ALLOCATION.—Each renewal
21 community, except as provided in subsection (d), shall re-
22 ceive a percentage of the funds provided under subsection
23 (a)(1) based on—

1 (1) the number of children from low-income
2 families who reside in an individual renewal commu-
3 nity; divided by
4 (2) the total number of children from low-in-
5 come families who reside in renewal communities na-
6 tionwide.
7 (c) ADDITIONAL MATCHING FUNDS.—Each renewal
8 community shall receive a percentage of funds under sub-
9 section (a)(2) based on—
10 (1) the total value of matching contributions for
11 scholarships provided from local governmental,
12 State, or private charitable sources within a renewal
13 community; divided by
14 (2) the total value of matching contributions for
15 scholarships provided from local governmental,
16 State, or private charitable sources in all renewal
17 communities nationwide.
18 (d) POSSIBLE EXCEPTION.—Notwithstanding sub-
19 section (b), if Puerto Rico or communities in Puerto Rico
20 are designated as renewal communities, such renewal com-
21 munities, in aggregate, shall receive not more than the
22 percentage of funds that Puerto Rico received under title
23 I of the Elementary and Secondary Education Act of 1965
24 during fiscal year 1995.

1 **SEC. 408. PARENTAL RIGHT OF CHOICE IN EDUCATION.**

2 (a) IN GENERAL.—Parents of each child who receives
3 assistance under this title shall be given a range of choice
4 of public and private elementary and secondary schools,
5 including religious schools that serve such community.

6 (b) TYPES OF ASSISTANCE.—The type of assistance
7 provided to the parent of a child selected to participate
8 in the scholarship program shall be determined by the type
9 of school to which the parent selects to send the child.

10 (1) SCHOLARSHIP SCHOOL.—If the parent
11 elects to have a child attend a private scholarship
12 school, described in section 409, the parent—

13 (A) shall receive a scholarship to be used
14 to pay tuition and other fees at the school; and

15 (B) shall receive direct or indirect trans-
16 portation assistance.

17 (2) ALTERNATIVE PUBLIC SCHOOL.—If the par-
18 ent elects to have the child attend an alternative
19 pubic school, the parent shall receive direct or indi-
20 rect transportation assistance.

21 (c) NO GUARANTEE OF ADMISSION.—Eligible chil-
22 dren whose parents have applied to receive a scholarship
23 under this title shall be subject to the admission criteria
24 of each scholarship school or alternative public school and
25 nothing in this title shall be construed to guarantee the

1 right of an eligible child to attend any scholarship school
2 or alternative public school.
3 (d) LIMITATION ON NUMBER OF CHILDREN AS-
4 SISTED.—The number of eligible children to receive assist-
5 ance from a renewal community shall be determined by
6 the funds available to such renewal community from—
7 (1) the Federal funds provided under this title;
8 and
9 (2) other funds provided by public and private
10 sources.
11 (e) PARENTAL NOTIFICATION.—
12 (1) IN GENERAL.—Each renewal community
13 shall provide timely notice of the scholarship pro-
14 gram to parents of eligible children residing in the
15 area and to the schools. At a minimum, such notice
16 shall—
17 (A) describe the educational opportunity
18 scholarship program;
19 (B) describe the eligibility requirements for
20 scholarships;
21 (C) describe the selection procedures to be
22 used if the number of eligible children seeking
23 to participate in the program exceeds the num-
24 ber that can be accommodated in the program;

1 (D) provide information about alternative
2 public schools and scholarship schools, including
3 information about any admission requirements
4 or criteria for each school participating in the
5 scholarship program; and
6 (E) include the procedures and a schedule
7 for parents to apply for their eligible children to
8 participate in the program.
9 (2) NOTIFICATION METHODS.—Each renewal
10 community is encouraged to use a variety of means
11 to provide information to parents in the community,
12 including direct distribution, mail, distribution of
13 materials in publicly frequented places, public adver-
14 tisements, and cooperative efforts with local commu-
15 nity groups.
16 (f) INFORMATION.—Renewal communities, upon re-
17 quest by any and all schools eligible to become scholarship
18 schools, shall fully cooperate with such schools in a timely
19 and reasonable manner to provide information prepared
20 by the school regarding school choice to parents of eligible
21 children. Such information shall include, at a minimum,
22 materials prepared by the school regarding the scholarship
23 program, selection of schools, and the school itself.

1 **SEC. 409. ELIGIBLE SCHOOLS.**

2 (a) STANDARDS.—Each private school located in the
3 renewal community or within a reasonable transportation
4 distance of such community is eligible to redeem scholar-
5 ships and to become a scholarship school if—

6 (1) the school complies with the antidiscrimina-
7 tion provisions of section 601 of title VI of the Civil
8 Rights Act of 1964 (42 U.S.C. 2000) and does not
9 discriminate on the basis of race;

10 (2) the school satisfies requirements established
11 by State and local governments, where applicable,
12 for curriculum and facilities which applied to private
13 schools for the area in which the school is located as
14 of January 1, 1996; and

15 (3) the school meets the health and safety
16 standards which applied to private schools as of Jan-
17 uary 1, 1996, for the community in which the school
18 is located.

19 (b) LIMITS ON THE REGULATION OF SCHOOLS.—Any
20 regulation of a scholarship school shall be subject to the
21 following limitations:

22 (1) No additional requirements, regulations, or
23 burdensome paperwork other than those in effect on
24 the date of the enactment of this Act or as set forth
25 or referenced in this title may be imposed upon
26 scholarship schools.

1 (2) Students who have been enrolled in a schol-
2 arship school in the preceding school year may be
3 given an admissions preference over new students
4 who apply.
5 (3) No requirements or regulations may pro-
6 hibit or limit the authority of scholarship schools to
7 provide religious instruction or education.
8 (4) Scholarship schools shall be protected by
9 the rights granted in the Religious Freedom Res-
10 toration Act of 1993.
11 (5) Except for the limitation concerning dis-
12 crimination on the basis of race expressed in sub-
13 section (a)(1), any school operated by a religious or-
14 ganization may require its employees to—
15 (A) adhere to the religious tenets and
16 teachings of such organization; and
17 (B) follow any rules of behavior devised by
18 the organization.
19 (6) No requirement and regulation shall pro-
20 hibit a scholarship school from—
21 (A) admitting students of a single gender;
22 (B) operating classes which are separated
23 on the basis of gender; or

1 (C) employing teaching personnel whose
2 gender the school deems appropriate in the edu-
3 cation of certain categories of students.
4 (c) INELIGIBLE SCHOOLS.—Notwithstanding any
5 other provision of this title, a school that advocates crimi-
6 nal behavior or which is operated by an organization which
7 advocates criminal behavior is ineligible to participate in
8 the program authorized by this title.

9 **SEC. 410. ADMINISTRATION OF PROGRAM AND TREATMENT**
10 **OF FUNDS.**

11 (a) FUNDS NOT AID TO INSTITUTIONS.—The funds
12 provided for a scholarship under this title is an award of
13 aid to a family, not to a school or institution. Use of a
14 scholarship or transportation assistance shall not con-
15 stitute Federal financial aid or assistance to a school, nor
16 shall it invoke any regulation of an activity beyond the
17 regulations explicitly referred to or provided for in this
18 title.
19 (b) TREATMENT OF GRANT FUNDS.—A Federal,
20 State, or local agency may not take into account, in any
21 year, Federal funds provided to a renewal community,
22 school, or to the parents of any child under this title in
23 determining whether to provide any other funds from Fed-
24 eral, State, or local resources, or in determining the
25 amount of such assistance.

1 (c) NO AUTHORIZATION OF FEDERAL REGULATION
2 OF EDUCATION.—Nothing in this Act shall be construed
3 to authorize the Secretary to exercise any direction, super-
4 vision, or control over the curriculum, program of instruc-
5 tion, administration, or personnel of any educational insti-
6 tution or school participating in a program under this
7 title.

8 (d) PROHIBITION ON STATE DISCRIMINATION IN USE
9 OF FUNDS.—A State constitution or State law shall not
10 be construed to prohibit the expenditure of any Federal
11 funds provided under this title in or by a religious institu-
12 tion. If a State law or constitution does not allow the ex-
13 penditure of State or local public funds in or by religious
14 organizations, the renewal community shall segregate Fed-
15 eral funds from State or other public funds for purposes
16 of providing assistance administering the educational op-
17 portunity scholarship program.

18 (e) REGULATION OF SCHOOLS NOT RECEIVING
19 SCHOLARSHIPS.—A rule or requirement established for
20 scholarship schools shall not apply to a private school that
21 chooses not to become a scholarship school.

22 (f) SCHOLARSHIPS NOT DEEMED INCOME.—Funds
23 used to provide scholarships shall not be deemed income
24 of the parents for Federal income tax purposes or for de-
25 termining eligibility for any other Federal programs.

1 **SEC. 411. CONTRIBUTIONS TO SCHOLARSHIP PROGRAM**
2 **FROM OTHER SOURCES.**

3 (a) IN GENERAL.—The renewal community is en-
4 couraged to seek or provide additional funds for scholar-
5 ships and transportation assistance from other sources, in-
6 cluding—

7 (1) local government funds;
8 (2) State government funds;
9 (3) contributions from private businesses; and
10 (4) contributions from private charitable orga-
11 nizations.

12 (b) PARENTAL PAYMENTS NOT COUNTED AS MATCH-
13 ING CONTRIBUTIONS.—For purposes of section 407(c),
14 payments of tuition and education fees by parents of eligi-
15 ble children shall not be considered matching contribu-
16 tions.

17 **SEC. 412. USE OF EXCESS FUNDS FOR ADDITIONAL EDU-**
18 **CATIONAL PURPOSES.**

19 (a) IN GENERAL.—If any funds remain after a re-
20 newal community has provided scholarships to all eligible
21 children whose parents have applied for assistance in ac-
22 cordance with this title, the community may use such ex-
23 cess funds for the general education of children from low-
24 income families who attend public schools within the re-
25 newal community, subject to the limitation in subsection
26 (b).

1 (b) LIMITATION.—A renewal community may not use
2 excess funds for the purposes described in subsection (a)
3 if the Secretary determines that the community—
4 (1) has failed to fully inform the parents or
5 guardians of eligible children of—
6 (A) the availability of scholarships; and
7 (B) the full range of choices of schools
8 available;
9 (2) has in any way discouraged or impeded par-
10 ents of eligible children from using scholarships;
11 (3) has in any way discouraged or impeded eli-
12 gible schools from receiving scholarships; or
13 (4) has unreasonably hindered the establish-
14 ment of new private schools within the renewal com-
15 munity.
16 (c) FORFEITURE OF SURPLUS FUNDS.—In the event
17 that the Secretary determines that a renewal community
18 has met one or more of the conditions described in sub-
19 section (b), the renewal community shall return any excess
20 funds described in subsection (a) to the Treasury.
21 **SEC. 413. EVALUATION.**
22 (a) IN GENERAL.—The Secretary shall conduct a na-
23 tional evaluation of the program authorized by this title
24 not later than 2 years after such program begins and a
25 second evaluation after 4 years. Such evaluations shall—

1 (1) assess the implementation of assisted pro-
2 grams and the effect on participants, schools, and
3 communities in the renewal community, including
4 parental involvement in, and satisfaction with, the
5 program and their children's education;
6 (2) compare the educational achievement of
7 children who participate in the scholarship program
8 with the achievement of similar children who do not
9 participate in the scholarship program before, dur-
10 ing, and after the program;
11 (3) compare educational achievement of chil-
12 dren who use scholarships to attend schools other
13 than the ones they would attend in the absence of
14 the program with educational achievement of chil-
15 dren who attend the schools scholarship students
16 would attend in the absence of the program; and
17 (4) compare graduation rates of children who
18 use scholarships to attend schools other than the
19 schools they would attend in the absence of the pro-
20 gram with graduation rates of children who attend
21 the schools the scholarship students would attend in
22 the absence of the program.
23 (b) NO AUTHORIZATION OF SCHOOL REGULATION.—
24 The responsibility to evaluate shall not be construed to
25 authorize the State or local government to exercise any

1 direction, supervision, or control over the curriculum, pro-
2 gram of instruction, administration, or personnel of any
3 educational private institution or school participating in
4 a low-income educational opportunity scholarship program
5 under this title, except that the school may be required
6 to provide reasonable information to assist in the evalua-
7 tion of the program, including standardized tests of stu-
8 dent achievement, surveys of parental satisfaction with
9 their child's education, surveys of student satisfaction, at-
10 tendance rates, dropout rates, and data on student's col-
11 lege enrollment.

12 **SEC. 414. EFFECT ON OTHER PROGRAMS.**

13 Nothing in this Act shall be read to affect the applica-
14 bility or requirements of part B of the Individuals with
15 Disabilities Education Act.

16 **SEC. 415. JUDICIAL REVIEW.**

17 (a) PANEL.—In the event of a constitutional chal-
18 lenge to the program authorized under this title, such
19 challenge shall be tried immediately by a three judge panel
20 in the United States District Court of the District of Co-
21 lumbia and immediate appeal, as of right, may be had in
22 the Supreme Court of the United States.

23 (b) REQUEST TO EXPEDITE.—The Supreme Court of
24 the United States is requested to expedite an appeal re-
25 quested pursuant to subsection (a).

1 **SEC. 416. DEFINITIONS.**

2 Except as otherwise provided, for purposes of this
3 title—

4 (1) the term "alternative public school" means
5 a public school other than the public school in which
6 the child normally would attend and which is within
7 reasonable transportation distance from the child's
8 residence;

9 (2) the term "assistance" means either a schol-
10 arship, transportation assistance, or a scholarship
11 and transportation assistance provided to parents of
12 eligible children who participate in the scholarship
13 program pursuant to this title.

14 (3) the term "elementary school" means an in-
15 stitutional day or residential school that provides el-
16 ementary education, as determined under State law;

17 (4) the term "eligible child" means a child
18 whose parents qualify to receive assistance under
19 section 406;

20 (5) the term "lawfully operated elementary
21 school" means an institutional day or residential
22 school that provides elementary education, as deter-
23 mined under State law;

24 (6) the term "lawfully operated secondary
25 school" means an institutional day or residential
26 school that provides secondary education, as deter-

1 mined under State law, except that such term does
2 not include any education beyond grade 12;
3 (7) the terms "Low-Income Educational Oppor-
4 tunity Scholarship" and "scholarship" mean a cer-
5 tificate awarded to a parent of an eligible child
6 under section 406 to be redeemed at a scholarship
7 school;
8 (8) the terms "local educational agency", "par-
9 ent", and "State educational agency" have the
10 meanings given such terms in section 14101 of the
11 Elementary and Secondary Education Act of 1965;
12 (9) the term "poverty level" means the total in-
13 come of a family that is at or below the Federal pov-
14 erty guidelines updated annually in the Federal Reg-
15 ister by the Department of Health and Human Serv-
16 ices under authority of section 673(2) of the Omni-
17 bus Budget Reconciliation Act of 1981 as amended;
18 (10) the term "renewal community" has the
19 meaning given such term in section 1400 of the In-
20 ternal Revenue Code of 1986;
21 (11) the term "scholarship program means a
22 program within the renewal community that provides
23 scholarships and transportation aid to eligible chil-
24 dren in accordance with this title.

1 (12) the term "scholarship school" means a pri-
2 vate school that chooses to accept educational oppor-
3 tunity scholarships;
4 (13) the term "secondary school" means an in-
5 stitutional day or residential school that provides
6 secondary education, as determined under State law,
7 except that such term does not include any edu-
8 cation beyond grade 12;
9 (14) the term "Secretary" means the Secretary
10 of Education;
11 (15) the term "State" means each of the 50
12 States, the District of Columbia, and the Common-
13 wealth of Puerto Rico; and
14 (16) the term "transportation assistance"
15 means direct or indirect subsidization of the costs of
16 transporting children participating in the program to
17 scholarship schools or alternative public schools.

18 **SEC. 417. AUTHORIZATION OF APPROPRIATIONS.**

19 There are authorized to be appropriated the following
20 sums: $200,000,000 for fiscal year 1996, $200,000,000
21 for fiscal year 1997, $200,000,000 for fiscal year 1998,
22 $400,000,000 for fiscal year 1999, $500,000,000 for fis-
23 cal 2000, $1,000,000,000 for fiscal year 2001, and
24 $2,500,000,000 for fiscal year 2002.

TITLE III—PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

SEC. 301. PREVENTION AND TREATMENT OF SUBSTANCE ABUSE; SERVICES PROVIDED THROUGH RELIGIOUS ORGANIZATIONS.

Title V of the Public Health Service Act (42 U.S.C. 290aa et seq.) is amended by adding at the end the following part:

"PART G—SERVICES PROVIDED THROUGH RELIGIOUS ORGANIZATIONS

"SEC. 581. APPLICABILITY TO DESIGNATED PROGRAMS.

"(a) DESIGNATED PROGRAMS.—Subject to subsection (b), this part applies to each program under this Act that makes awards of Federal financial assistance to public or private entities for the purpose of carrying out activities to prevent or treat substance abuse (in this part referred to as a 'designated program'). Designated programs include the program under subpart II of part B of title XIX (relating to formula grants to the States).

"(b) LIMITATION.—This part does not apply to any award of Federal financial assistance under a designated program for a purpose other than the purpose specified in subsection (a).

1 "(c) DEFINITIONS.—For purposes of this part (and
2 subject to subsection (b)):
3 "(1) The term 'designated award recipient'
4 means a public or private entity that has received an
5 award under a designated program (whether the
6 award is a designated direct award or a designated
7 subaward).
8 "(2) The term 'designated direct award' means
9 an award under a designated program that is re-
10 ceived directly from the Federal Government.
11 "(3) The term 'designated subaward' means an
12 award of financial assistance made by a non-Federal
13 entity, which award consists in whole or in part of
14 Federal financial assistance provided through an
15 award under a designated program.
16 "(4) The term 'designated program' has the
17 meaning given such term in subsection (a).
18 "(5) The term 'financial assistance' means a
19 grant, cooperative agreement, contract, or
20 voucherized assistance.
21 "(6) The term 'program beneficiary' means an
22 individual who receives program services.
23 "(7) The term 'program participant' has the
24 meaning given such term in section 582(a)(2).

1 "(8) The term 'program services' means treat-
2 ment for substance abuse, or preventive services re-
3 garding such abuse, provided pursuant to an award
4 under a designated program.
5 "(9) The term 'religious organization' means a
6 nonprofit religious organization.
7 "(10) The term 'voucherized assistance'
8 means—
9 "(A) a system of selecting and reimbursing
10 program services in which—
11 "(i) the beneficiary is given a docu-
12 ment or other authorization that may be
13 used to pay for program services;
14 "(ii) the beneficiary chooses the orga-
15 nization that will provide services to him or
16 her according to rules specified by the des-
17 ignated award recipient; and
18 "(iii) the organization selected by the
19 beneficiary is reimbursed by the designated
20 award recipient for program services pro-
21 vided; or
22 "(B) any other mode of financial assist-
23 ance to pay for program services in which the
24 program beneficiary determines the allocation

1 of program funds through his or her selection
2 of one service provider from among alternatives.
3 **"SEC. 582. RELIGIOUS ORGANIZATIONS AS PROGRAM PAR-**
4 **TICIPANTS.**
5 "(a) IN GENERAL.—
6 "(1) SCOPE OF AUTHORITY.—Notwithstanding
7 any other provision of law, a religious organiza-
8 tion—
9 "(A) may be a designated award recipient;
10 "(B) may make designated subawards to
11 other public or nonprofit private entities (in-
12 cluding other religious organizations);
13 "(C) may provide for the provision of pro-
14 gram services to program beneficiaries through
15 the use of voucherized assistance; and
16 "(D) may be a provider of services under
17 a designated program, including a provider that
18 accepts voucherized assistance.
19 "(2) DEFINITION OF PROGRAM PARTICIPANT.—
20 For purposes of this part, the term 'program partici-
21 pant' means a public or private entity that has re-
22 ceived a designated direct award, or a designated
23 subaward, regardless of whether the entity provides
24 program services. Such term includes an entity
25 whose only participation in a designated program is

1 to provide program services pursuant to the accept-
2 ance of voucherized assistance.
3 "(b) RELIGIOUS ORGANIZATIONS.—The purpose of
4 this section is to allow religious organizations to be pro-
5 gram participants on the same basis as any other non-
6 profit private provider without impairing the religious
7 character of such organizations, and without diminishing
8 the religious freedom of program beneficiaries.
9 "(c) NONDISCRIMINATION AGAINST RELIGIOUS OR-
10 GANIZATIONS.—Religious organizations are eligible to be
11 program participants on the same basis as any other non-
12 profit private organization so long as activities under the
13 designated programs are implemented consistent with the
14 establishment clause of the first amendment to the Con-
15 stitution of the United States. Neither the Federal Gov-
16 ernment nor a State receiving funds under such programs
17 shall discriminate against an organization that is or ap-
18 plies to be a program participant on the basis that the
19 organization has a religious character.
20 "(d) RELIGIOUS CHARACTER AND FREEDOM.—
21 "(1) RELIGIOUS ORGANIZATIONS.—Notwith-
22 standing any other provision of law, any religious or-
23 ganization that is a program participant shall retain
24 its independence from Federal, State, and local gov-
25 ernment, including such organization's control over

1 the definition, development, practice, and expression
2 of its religious beliefs.
3 "(2) ADDITIONAL SAFEGUARDS.—Neither the
4 Federal Government nor a State shall require a reli-
5 gious organization to—
6 "(A) alter its form of internal governance;
7 or
8 "(B) remove religious art, icons, scripture,
9 or other symbols;
10 in order to be a program participant.
11 "(e) RIGHTS OF PROGRAM BENEFICIARIES.—With
12 respect to an individual who is a program beneficiary or
13 a prospective program beneficiary, if the individual objects
14 to a program participant on the basis that the participant
15 is a religious organization, the following applies:
16 "(1) If the organization received a designated
17 direct award, the organization shall arrange for the
18 individual to receive program services through an al-
19 ternative entity.
20 "(2) If the organization received a designated
21 subaward, the non-Federal entity that made the
22 subaward shall arrange for the individual to receive
23 the program services through an alternative program
24 participant.

1 "(3) If the organization is providing services
2 pursuant to voucherized assistance, the designated
3 award recipient that operates the voucherized assist-
4 ance program shall arrange for the individual to re-
5 ceive the program services through an alternative
6 provider.
7 "(4) Arrangements under any of paragraphs
8 (1) through (3) with an alternative entity shall pro-
9 vide for program services the monetary value of
10 which is not less than the monetary value of the pro-
11 gram services that the individual would have re-
12 ceived from the religious organization involved.
13 "(f) NONDISCRIMINATION IN EMPLOYMENT.—
14 "(1) IN GENERAL.—Except as provided in para-
15 graph (2), nothing in this section shall be construed
16 to modify or affect the provisions of any other Fed-
17 eral or State law or regulation that relates to dis-
18 crimination in employment on the basis of religion.
19 "(2) EXCEPTION.—A religious organization
20 that is a program participant may require that an
21 employee rendering programs services adhere to—
22 "(A) the religious tenets and teachings of
23 such organization; and
24 "(B) any rules of the organization regard-
25 ing the use of drugs or alcohol.

1 "(g) NONDISCRIMINATION AGAINST BENE-
2 FICIARIES.—
3 "(1) IN GENERAL.—Except as provided in para-
4 graph (2) or as otherwise provided in law, a religious
5 organization that is a program participant shall not
6 in providing program services discriminate against a
7 program beneficiary on the basis of religion or reli-
8 gious belief.
9 "(2) LIMITATION.—A religious organization
10 that is a program participant may require a pro-
11 gram beneficiary who has elected in accordance with
12 subsection (e) to receive program services from such
13 organization—
14 "(A) to actively participate in religious
15 practice, worship, and instruction; and
16 "(B) to follow rules of behavior devised by
17 the organizations that are religious in content
18 or origin.
19 "(h) FISCAL ACCOUNTABILITY.—
20 "(1) IN GENERAL.—Except as provided in para-
21 graph (2), any religious organization that is a pro-
22 gram participant shall be subject to the same regula-
23 tions as other recipients of awards of Federal finan-
24 cial assistance to account, in accordance with gen-

1 erally accepting auditing principles, for the use of
2 the funds provided under such awards.
3 "(2) LIMITED AUDIT.—With respect to the
4 award involved, if a religious organization that is a
5 program participant maintains the Federal funds in
6 a separate account from non-Federal funds, then
7 only the Federal funds shall be subject to audit.

8 **"SEC. 583. LIMITATIONS ON USE OF FUNDS FOR CERTAIN**
9 **PURPOSES.**

10 "(a) IN GENERAL.—Except as provided in subsection
11 (b), no funds provided directly to an entity under a des-
12 ignated program shall be expended for sectarian worship
13 or instruction.
14 "(b) EXCEPTION.—Subsection (a) shall not apply to
15 assistance provided to or on behalf of a program bene-
16 ficiary if the beneficiary may choose where such assistance
17 is redeemed or allocated.

18 **"SEC. 584. ADMINISTRATION OF PROGRAM AND TREAT-**
19 **MENT OF FUNDS.**

20 "(a) FUNDS NOT AID TO INSTITUTIONS.—Financial
21 assistance under a designated program provided to or on
22 behalf of program beneficiaries is aid to the beneficiary,
23 not to the organization providing program services. The
24 receipt by a program beneficiary of program services at

1 the facilities of the organization shall not constitute Fed-
2 eral financial assistance to the organization involved.
3 "(b) PROHIBITION ON STATE DISCRIMINATION IN
4 USE OF FUNDS.—No provision in any State constitution
5 or State law shall be construed to prohibit the expenditure
6 of Federal funds under a designated program in a reli-
7 gious facility or by a religious organization that is a pro-
8 gram participant. If a State law or constitution would pre-
9 vent the expenditure of State or local public funds in such
10 a facility or by such a State or local government, then
11 the organization shall segregate the Federal funds from
12 State or other public funds for purposes of carrying out
13 the designated program.

14 **"SEC. 585. EDUCATIONAL REQUIREMENTS FOR PERSONNEL**
15 **IN DRUG TREATMENT PROGRAMS.**

16 "(a) FINDINGS.—The Congress finds that—
17 "(1) establishing formal educational qualifica-
18 tion for counselors and other personnel in drug
19 treatment programs may undermine the effective-
20 ness of such programs; and
21 "(2) such formal educational requirements for
22 counselors and other personnel may hinder or pre-
23 vent the provision of needed drug treatment services.
24 "(b) LIMITATION ON EDUCATIONAL REQUIREMENTS
25 OF PERSONNEL.—

1 "(1) TREATMENT OF RELIGIOUS EDUCATION.—
2 If any State or local government that is a program
3 participant imposes formal educational qualifications
4 on providers of program services that are religious
5 organizations, such State or local government shall
6 treat religious education and training of personnel
7 as having a critical and positive role in the delivery
8 of program services. In applying educational quali-
9 fications for personnel in religious organizations,
10 such State or local government shall give credit for
11 religious education and training equivalent to credit
12 given for secular course work in drug treatment or
13 any other secular subject that is of similar grade
14 level and duration.
15 "(2) RESTRICTION OF DISCRIMINATION RE-
16 QUIREMENTS.—
17 "(A) IN GENERAL.—Subject to paragraph
18 (1), a State or local government that is a pro-
19 gram participant may establish formal edu-
20 cational qualifications for personnel in organiza-
21 tions providing program services that contribute
22 to success in reducing drug use among program
23 beneficiaries.
24 "(B) EXCEPTION.—The Secretary shall
25 waive the application of any educational quali-

1 fication imposed under subparagraph (A) for an
2 individual religious organization, if the Sec-
3 retary determines that—
4 "(i) the religious organization has a
5 record of prior successful drug treatment
6 for at least the preceding three years;
7 "(ii) the educational qualifications
8 have effectively barred such religious orga-
9 nization from becoming a program pro-
10 vider;
11 "(iii) the organization has applied to
12 the Secretary to waive the qualifications;
13 and
14 "(iv) the State or local government
15 has failed to demonstrate empirically that
16 the educational qualifications in question
17 are necessary to the successful operation of
18 a drug treatment program.".

TITLE V—CRA CREDIT FOR INVESTMENTS IN COMMUNITY DEVELOPMENT ORGANIZATIONS LOCATED IN RENEWAL COMMUNITIES

SEC. 501. CRA CREDIT FOR INVESTMENTS IN COMMUNITY DEVELOPMENT ORGANIZATIONS LOCATED IN RENEWAL COMMUNITIES.

Section 804 of the Community Reinvestment Act of 1977 (12 U.S.C. 2903) is amended by adding at the end the following new subsection:

"(c) INVESTMENTS IN CERTAIN COMMUNITY DEVELOPMENT ORGANIZATIONS.—In assessing and taking into account, under subsection (a), the record of a regulated financial institution, the appropriate Federal financial supervisory agency may consider, as a factor, investments of the institution in, and capital investment, loan participation, and other ventures undertaken by the institution in cooperation with, any community development organization (as defined in section 234 of the Bank Enterprise Act of 1991) which is located in a renewal community (as designated under section 1400 of the Internal Revenue Code of 1986).".

1 **SEC. 502. FDA USER FEE AMENDMENT.**

2 Section 736(b) of the Federal Food, Drug, and Cos-
3 metic Act (21 U.S.C. 379h(b)) is amended by adding at
4 the end the following:

5 "(3) RENEWAL COMMUNITY EXCEPTION.—
6 Any—

7 "(A) business which qualifies as a renewal
8 community business under section 1400C of the
9 Internal Revenue Code of 1986, or

10 "(B) any nonprofit organization,

11 which is manufacturing a drug for which a fee is re-
12 quired under subsection (a)(2)(A) and which was de-
13 veloped in a renewal community designated under
14 section 1400 of such Code or has pending an appli-
15 cation or supplement for a drug for which a fee is
16 required under subsection (a)(2)(B) and which was
17 developed in a renewal community designated under
18 section 1400 of such Code shall not be required to
19 pay any portion of such fee. Any business or non-
20 profit organization shall not be required to pay any
21 portion of the fee required under subsection
22 (a)(1)(A) for a human drug application for a drug
23 that was developed in a renewal community."

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ISBN 0-16-053887-4

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