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## Part One: The State of America's Cities

### Finding #3: Cities face three fundamental opportunity gaps -- in jobs and housing -- that are critical to reducing poverty and attracting an middle-class families.

Cities face three key challenges or opportunity gaps. First, employment in central cities are generating relatively few of the entry-level jobs that their residents urgently need. Second, too many urban schools are failing, leaving many children unprepared to compete for 21st century jobs. Third, homeownership is on the rise but still lags in suburbs -- and many poor families are in desperate need of affordable rental housing. With the economy running at record levels, the time to close these opportunity gaps for the benefit of those who live in our cities and the Nation as a whole.

#### Cities Face a Jobs Gap

While cities are making significant economic progress, they lag behind their suburban neighbors on key measures of economic health. The mismatch between the limited number of low-skilled jobs and the number of urban residents with low skills who need them to work is a critical challenge for cities, particularly as families transition from welfare to work. It is little wonder that city officials across the country welcome the Clinton Administration efforts to close the job gap that confronts urban America.

#### Employment Opportunities Limited for Low-Skilled Workers

**Limited entry-level job opportunities keep unemployment rates relatively high in cities -- especially large cities.** The unemployment rate for central cities is 5.3 percent compared with 3.9 percent for suburbs. In some metropolitan areas, the gap was more pronounced: in the Detroit and New York metropolitan areas the central city unemployment rate was more than twice the rate of the suburbs.

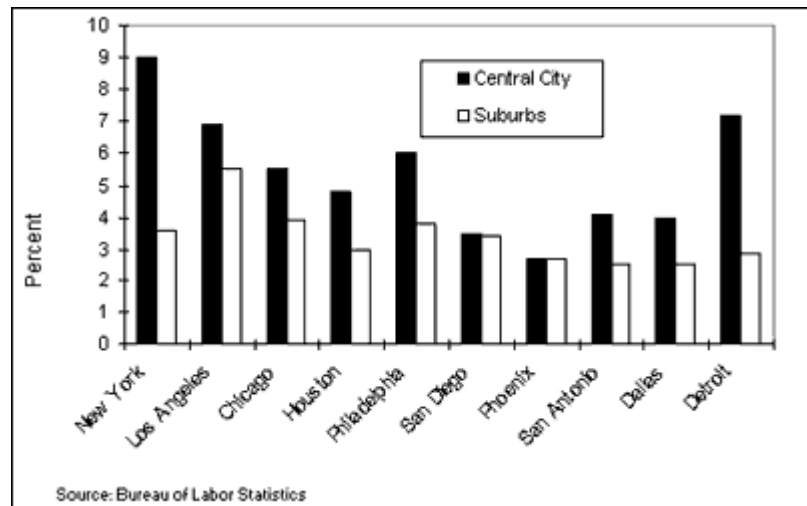
**Unemployment is also high for subgroups that tend to live in cities.** In central cities, unemployment (ages 16 to 19), for example, was 26 percent in central cities -- five times the Nation's overall unemployment rate. These disparities result in substantial labor shortages in key suburban areas and industries at the same time that many urban residents are without work.

**There is a wider wage gap.** While progress has been made on the wage gap in the past few years, we haven't regained what we lost over the past 20 years. Over the past two decades, earnings inequality widened as the inflation-adjusted wages of low-skilled workers declined and the wages of high-skilled workers increased. According to a report by the U.S. Department of Labor, from 1982 to 1996, the inflation-adjusted wages of workers in the top one-tenth of the workforce increased from \$24.8 an hour to \$34.8 an hour. In contrast, over this same period wages for workers in the bottom



the workforce fell from \$6.28 to \$5.46. Adjusting these wage figures for the employer-provided benefits added further to the growth of earnings inequality. For example, more than 80 percent of all workers received paid holidays and vacation, but less than 10 percent of low-wage workers received paid leave of any kind. At the same time, benefits, from 1982 to 1996 highly paid workers gained \$1.73 an hour in inflation-adjusted total compensation, while low-end workers lost 93 cents an hour. While earnings data for low-wage workers show a significant increase, it is too early to say whether this gain will continue.

**Exhibit 11**  
**Joblessness Remains Higher in Most Central Cities**  
**Than in Suburbs**  
**Unemployment Rates by Location for 10 Largest Metropolitan Areas,**



**The Welfare Reform Challenge -- Cities Must Create More Jobs**

While hundreds of thousands of welfare recipients are already making the transition from welfare rolls to payrolls -- indeed, the percentage of the U.S. population on welfare is at its lowest since 1969 -- big challenges remain. Half of all households that receive welfare assistance income live in cities. This concentration of welfare recipients means that cities will need to produce more low-skilled jobs and do a better job of connecting welfare recipients to jobs throughout the metropolitan economy.<sup>19</sup> These challenges can be met by sustained work by private-sector employers, community-based organizations, and government at all levels working together.

**Urban caseloads remain relatively high.** According to a recent report issued by the Brookings Institution, caseloads in large urban counties have been declining, but at a substantially slower rate than for the remaining portions of their States. The Brookings Institution found that the slowest reductions in caseloads occurred in urban counties, particularly in high-poverty neighborhoods. As a result, urban caseloads are accounting for a larger percentage of total State welfare rolls. For example, while caseloads in Milwaukee declined by nearly 30 percent between 1996 and 1997, as of March 1998, Milwaukee County households accounted for fully 86 percent of all households receiving welfare in Wisconsin.

***Detroit Empowerment Zone Spurs Jobs, Investment***

Spurred by an approach that promotes collaboration among businesses, lenders, community- and faith-based groups, and the public sector, the Detroit Empowerment Zone (EZ) is spearheading the remarkable turnaround of a city hit hard by decades of disinvestment and decline. Under **Mayor Dennis Archer**, the city is generating jobs and as much as \$4.7 billion in new investment in the old industrial neighborhoods of the EZ.

The EZ is a major catalyst for public and private capital flowing into Detroit -- for example, the Financial Institutions Consortium has already invested \$956 million (of its 10-year pledge of \$1.1 billion) in Detroit's future, including loans to minority-owned suppliers to the Big Three. EZ-related investments will ultimately create thousands of jobs and state-of-the-art manufacturing capacity in the city. "I have seen what happened in Detroit," President Clinton told the National Urban League. "I have watched unemployment be cut in half in 4 years, when private employers work with vigorous community leaders and take maximum advantage of the incentives in the Empowerment Zones."

***There is a job gap in America's cities.***

*"Our people, all of them depending on public transportation, cannot get there. They don't own cars, and public transportation doesn't get you from the city to the suburban job centers, and that is an enormous problem."*

**Edward G. Rendell, Mayor of Philadelphia**

While projecting job gaps is difficult, one effort to do so is a forthcoming report from the U.S. Conference of Mayors (USCM). This report estimates the need for jobs for welfare recipients and other low-skilled job seekers and compares them with the projected job growth in 74 urban counties. These job projections were compiled by Research Financial Associates (RFA):

- USCM/RFA estimates that there could be 353,000 fewer low-skilled jobs than the number of welfare recipients who need jobs over the next 5 years in 74 urban counties.
- The Conference of Mayors estimates that over 1.2 million current welfare recipients in 74 counties will need jobs over the next 5 years and that these welfare recipients will be an additional 409,000 low-skilled job seekers. However, RFA projects that these 74 counties will only produce 856,000 low-skilled jobs.
- As a result, these cities could face a total job gap -- the difference between total low-skilled job growth and total number in need of those jobs -- of more than 760,000 over the next 5 years.

***There will be two job seekers for every low-skilled job.*** The new Conference of Mayors report also notes that when welfare recipients are combined with other low-skilled job seekers, there may be two job seekers for every low-skilled job added over the next 5 years.

years. In just 12 of the 74 cities, there could be more jobs than job seekers. In other hand, the ratio of low-skilled job seekers (including welfare recipients) to low-skilled jobs may be as high as 10 to 1 in cities like Cleveland, Detroit, and Newark and 4 to 1 or greater in Chicago, Memphis, New Orleans, and New York City.

The Conference of Mayors report confirms earlier studies projecting job gaps for low-skilled workers. For example, researchers at Northern Illinois University estimate there would be between 4 and 7 low-skilled job seekers for each low-skilled job in Chicago in the year 2000.<sup>20</sup> The same ratio for Minneapolis-St. Paul was estimated to be between 1.7 and 3.2 workers for each low-skilled job; in Milwaukee the ratio was between 3.6 and 6.9 to 1.0 job. The California Budget Project estimated six to eight welfare assistance recipients for each available low-skilled job in several large urban counties (Los Angeles, San Diego, and San Bernardino).<sup>21</sup>

### **Barriers Limit Access to Existing Jobs**

The job gap facing city residents is compounded by the lack of transportation to available suburban jobs and lack of affordable, high-quality child care and affordable housing. For a regional labor market to work efficiently, job seekers must have access to all the jobs for which they are qualified, wherever they are located in a metropolitan area.

#### ***St. Louis Region Comes Together to Create Job-Friendly Transportation Network***

Under the leadership of **Mayor Clarence Harmon**, city and suburban governments in the St. Louis area, along with businesses and civic groups, are finding common ground in initiatives that align transportation resources with the needs of job seekers and employers in the region. Working through the East-West Gateway Coordinating Council -- the region's Metropolitan Planning Organization -- public and private institutions are launching cooperative strategies to increase access to job opportunities and amenities for all residents. These include programs such as the HUD-sponsored Bridges to Work demonstration program, a city-to-suburb job links program that provides reverse commuting and other transportation services to city residents in need of access to employment growth centers on the urban fringe; and the St. Louis Regional Jobs Initiative, funded in part by the Annie E. Casey Foundation, which includes employment training, placement, and transportation services tailored to the needs of major employers and key industries.

***People cannot get to the jobs.*** The rapid growth of jobs in the suburbs has created a "spatial mismatch" that prevents many relatively unskilled residents of distressed inner-city neighborhoods from reaching the entry-level jobs in the suburbs. Few welfare recipients own their own cars. Cash-strapped urban mass transit systems find it difficult and expensive to expand into lower density suburban job centers, and most do not provide adequate service for those with nontraditional work hours. In Boston, for example, 60 percent of welfare recipients live within one-quarter mile of a bus route or mass transit stop, but only 32 percent of potential entry-level jobs in the Boston metropolitan area are within this distance. Only 58 percent of these entry-level jobs are within one mile of the nearest mass transit.

However, the construction of new or expanded transit rail lines in Dallas, St. Diego, and other cities, as well as growing interest in various "reverse comm models like those being tested in HUD's Bridges to Work program and those through the U.S. Department of Transportation's recently enacted Access to program, offer a hopeful sign that new urban-suburban transportation linkag forged.

**Limited housing choices block job access.** Housing discrimination and th critical shortage of affordable housing in the suburbs further limit the ability workers -- and particularly low-skilled minority workers -- to access jobs in t By concentrating many poor and minority families in central cities and aging suburbs, housing discrimination contributes to the reality that areas with the bases are home to the greatest needs for investment, stronger job connectio education and other services that prepare people to seize opportunity.

**The lack of affordable child care hits cities hard.** Safe and affordable ch necessary to allow parents to work. Child care is especially important for tho from welfare to work. It enables adults to leave home for training and full-da Quality child care provides a healthy, nurturing environment, safe from the c streets and staffed with positive adult role models. It can help young childre succeed in school, reinforcing the academic and social lessons they learn the stay-at-home parent may also be beneficial for young children, many inner-c cannot give up any adult income, so quality child care becomes essential to p one's family with basic needs.

*"Many central city job applicants are physically isolated from places of employment, socially isolated from the informal job networks that have become a major source of job placement. Unlike previous years, labor markets today are mainly regional; a disproportionate number of metropolitan jobs are in the suburbs."*

**Dr. William Julius Wilson, Communities 2020 Seminar Series, U.S. Department of Housing and Urban Development**

Unfortunately, affordable, quality child care remains out of reach for many w families, including single-parent families and the working poor, who are conc cities. Only 10 percent of the families who qualify for Federal child care recei cities have tens of thousands of families on waiting lists for child care assista the average family pays about 7 percent of its income for child care, such ca one-quarter of the income of low-income families, on average.

The challenges of welfare reform confront the already overburdened network child care providers. A recent U.S. Conference of Mayors survey of 34 cities ( in many communities, both the number of child care slots and the available s provided by the State fall far short of meeting even the needs of former welf recipients, to say nothing of low-income working families. Los Angeles, for e reported that in the 43 code areas with the heaviest concentrations of Temp Assistance for Needy Families (TANF) recipients, there are approximately 78, of TANF families -- but only 30,000 licensed child care spaces available.<sup>22</sup> Mo percent of cities responding reported that State reimbursement rates would i average cost of full-day, center-based child care.

### ***In Wichita, Cessna Aircraft Helps Welfare Recipients Soar***

Cessna Aircraft Company, in partnership with the City of Wichita, Kansas, is spearheading the revitalization of the city's poorest and most crime-stricken district with a new comprehensive "learning and work complex" that is helping local TANF recipients prepare for well-paying manufacturing jobs.

The new complex, which is being financed primarily through a \$3.64 million loan guarantee from HUD's Economic Development Loan Fund, continues the rebirth of Cessna's long-vacant 21st Street subassembly and training facility -- itself funded in part through a HUD Community Development Block Grant commitment from the city. At the facility, participants in the State of Kansas' KanWork welfare-to-work program pursue a flexible job training program that includes education, help with work readiness skills, child care, and other services. Local groups have pitched in to make the program a success: the public schools provide literacy instructors, a local hospital provides exercise instructors to help workers prevent repetitive motion disorders, and AmeriCorps volunteers staff the daycare center. Of the 237 individuals who have graduated from the program so far, 200 have moved into Cessna jobs that start at more than \$10 per hour, with full benefits, and 26 are currently employed at other local companies.

## **Cities Face a Large Skills Mismatch**

Workforce development will be critical for upgrading skills and earning power evidence is clear -- education and training have a significantly greater impact today than they did a generation ago. Holding other factors equal, a 2 secondary degree raises earnings by 20 percent (on average), and a 4-year degree by 40 percent, over a high school diploma alone.<sup>23</sup> Leaving high school graduating, on the other hand, substantially lowers one's earning power relative to those who have a diploma or higher credentials. Ninth grade dropouts earn one-quarter as much as workers with diplomas and no higher degree.

The cost of low skills is greatest for women with young children, suggesting the need for skill building and job readiness as part of making welfare reform work. According to a recent report, while 41 percent of all women work steadily in "good" jobs by the time their children are 10, only 22 percent of mothers and 15 percent of women who have not completed high school do so.<sup>24</sup> While some women who make the transition from a "bad" job -- one with low or no benefits, and few prospects for advancement -- to a good job do so, many do not. The least skilled are at greatest risk of working only intermittently and being mired in bad jobs.

Together with schools and colleges, training organizations of many kinds must be developed for workers who are more mobile than ever, changing jobs and even careers over the course of decades.<sup>25</sup> Urban workers who are more likely to face other employment needs need these skills all the more.

## Cities Face Barriers to Business Development

Although cities offer important advantages to businesses -- proximity to cluster-related companies and knowledge-based services, direct access to underserved markets, highly developed infrastructure, a motivated workforce, etc. -- these are often overshadowed by the problems that new entrepreneurs and existing ones encounter in trying to do business in large cities.

**Businesses face obstacles to assembling capital.** Capital has tended to follow the movement of people and jobs to the suburbs. Lenders and investors, nervous about the problems and prospects, have been reluctant to back even the most promising ventures in inner-city neighborhoods. Disinvestment has had a devastating impact in many urban areas, leaving temporary economic setbacks to turn into long-term problems. Public spending alone cannot reverse this downward spiral -- that solution has not worked. However, cities can help make central cities more attractive places for investment by lowering the barriers that make business development riskier.

**Environmental hazards pose a barrier to redevelopment.** One of the major barriers to the very land on which cities -- and the Nation's economic prosperity -- were built is the presence of "brownfields," former industrial sites which may have low-to-moderate levels of hazardous contamination which would need to be cleaned up before they could be redeveloped. The General Accounting Office has estimated that there may be 450,000 brownfields nationwide, with the majority in urban areas.<sup>26</sup> These sites are likely to be otherwise attractive commercial and industrial sites, representing a tremendous resource for cities. However, this resource has remained largely untapped because developers and lenders concerned about liability for cleanup costs have preferred suburban "greenfields" and thus contributed to costly sprawl. Many urban brownfields stand vacant -- a blight on the surrounding neighborhood.

## Closing the Job Gap: Administration Response

The President's FY 1999 budget request includes several important initiatives to address the low-skilled jobs gap. The first element of any job creation strategy is to restore distressed economies as thriving places for retail, commercial and industrial activity that can provide jobs for the community residents to work. That can only be achieved through private-sector investment in distressed communities, and the availability of competitively priced business financing.

To stimulate job development, the President proposed a \$400 million **Community Empowerment Fund**, continued funding for the Treasury Department's **Community Development Financial Institutions**; a second round of **Empowerment Zones** will be implemented in 15 new communities; and a new **Brownfields Initiative** will combine cleanup funds through the Environmental Protection Agency with \$500 million in HUD economic development grants to redevelop and rebuild contaminated sites. In those initiatives are the already enacted **Tax Incentives for EZs** and an extension of the **Brownfields Tax Incentives**.

The second key element of the Administration's jobs strategy is to connect welfare recipients to jobs in employment centers wherever they are located in metro areas. The Administration fought for and is now implementing the \$3 billion **to-Work Grant program** which targets long-term welfare recipients in high unemployment areas. A substantial portion of these funds will be administered by local communities. The FY 1999 budget proposes HUD's 50,000 new **Welfare-to-Work housing vouchers**.

families that need housing assistance to get or keep a job. In addition, the Transportation bill recently signed by the President authorized up to \$150 million for **Access to Jobs** grants that will help close the transportation gap for inner-city job seekers. Each of these proposals is further described in Part Two of this report. By Congress, these initiatives will significantly improve cities' chances of successfully meeting the challenges of welfare reform.

## Cities Face an Education Gap

Many city schools are failing to prepare America's youth -- the Nation's work force and citizens for the 21st century. Failing schools not only frustrate the aspirations of young people but the competitiveness of cities in a fast-changing global economy.

### Urban Schools Face Extraordinary Challenges

The larger social needs bearing down on cities continue to converge on their schools -- and some are collapsing under the weight. City schools serve much higher concentrations of poor and minority children -- who face countless disadvantages compared to suburban schools. In four out of every five large central city schools, at least 50 percent of students are poor and more than half are members of minority groups. In city schools, students are also more likely to come from single-parent families and to lack instruction in English as a second language.

**Urban youth face extra hurdles -- and fewer resources.** Children from inner-city urban neighborhoods often start with educational and social deficits that they find it difficult to remedy. Although many big-city schools spend about as much as the average district in their State, a weak tax base prevents them from financing the extra resources they need to help their students overcome these disadvantages.

**Many urban schools confront management and staffing problems -- and weak standards.** Some urban schools are burdened with bloated, unresponsive bureaucracies. Recruiting highly qualified teachers is very hard for schools with low pay, setbacks are many, and the violence of the streets -- or literally on school grounds -- is never far away. A shortage of teachers, in turn, keeps class sizes large, making urban classrooms more disruptive and making it difficult for students to get the attention and mentoring they need to learn and grow. Finally, educational standards are too low. In too many districts, with a system of "social promotion" that graduates young students who lack even the most basic reading and math skills needed to function in the workforce.

**School violence is concentrated in large urban schools.** Though news reports often confirm that school violence is not just an urban problem by any means, violent attacks are more common in city schools, especially big ones, than they are in suburban schools. In a national survey, 1,800 city schools reported over 5,400 fights in which weapons were used during the 1996-97 school year -- and those data only represent the most serious enough to be reported to the police.<sup>28</sup>

### Many Urban Schools are Crumbling

One of the most serious problems facing central city students and educators is that their schools are literally crumbling around them. Attempting to meet crushing needs with meager resources has forced many schools to spend more of their limited funds on instruction and less on maintaining an already aged building stock. Many inner-city schools must spend sizable portions of their facilities budgets on emergency repairs. The result is deferred maintenance and escalating capital costs. The need to repair

replace inner-city school buildings is reaching crisis proportions: a recent stu  
General Accounting Office found that 38 percent of central city schools, servi  
5.5 million students, had at least one inadequate building. Two-thirds (with r  
million students) had at least one inadequate building feature, such as a leak  
inadequate plumbing.

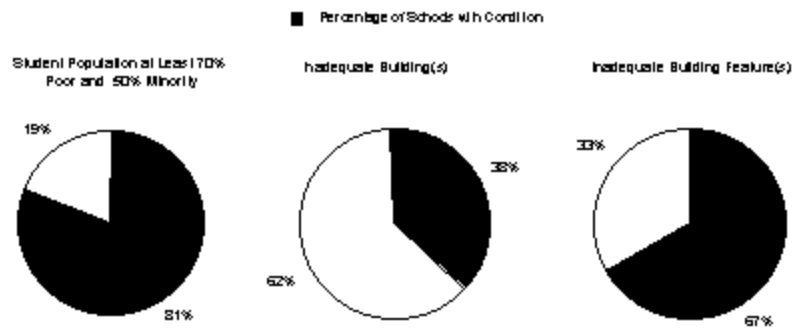
***Seattle Helps Children Make the MOST of Time Out of School***

Every child needs a safe, fun, educational place to go after school, and Seattle's MOST (Making the Most of Out-of-School Time) initiative is dedicated to ensuring that every child ages 5 to 14 has access to such places -- regardless of family income, cultural or linguistic background, or special needs.

Established with a \$1.2 million grant from the DeWitt Wallace-Reader's Digest Fund and funded in part by a voter-approved local tax levy, MOST activities are coordinated by the School's Out Consortium/YWCA, Child Care Resources, Seattle Central Community College, and the City of Seattle. But its design and dynamism reflect the ideas and commitment of hundreds of people, from children and parents to educators and social service providers, who are working together to create a rich, interconnected system of high-quality out-of-school activities and resources. Its print and online directory includes information on more than 400 programs available throughout Seattle.

Not only does MOST fill critical gaps in availability, affordability, and access -- for example, providing free summer programming to more than 500 immigrant and refugee children -- it has also helped develop quality standards for local out-of-school programs, as well as a community college curriculum on school-age care to ensure that current and future staff are adequately trained.

**Exhibit 12**  
**Many Disadvantaged Urban Students**  
**Attend Deteriorating Schools**  
**Share of Central City Schools With Student Population At Least 70 P**  
**and 50 Percent Minority; Inadequate Building(s); Inadequate Buildi**  
**(s)**

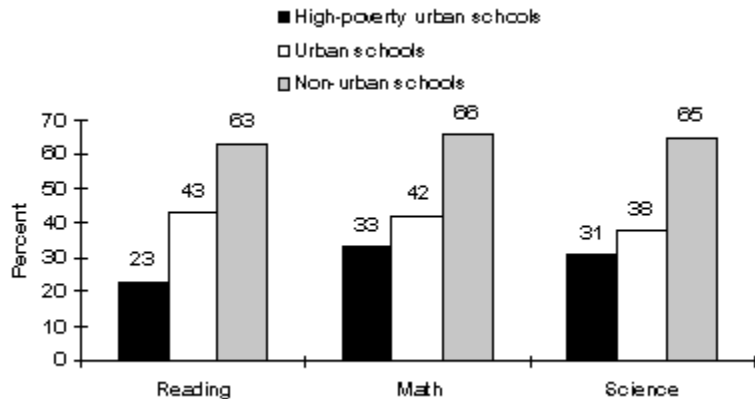


Source: School Facilities: School Conditions Vary, U.S. General Accounting Office, June 1996

### Achievement and School Completion Are Lagging in Inner-City Schools

**Basic achievement -- especially in high-poverty urban schools -- lags in suburban schools.** Like the physical plant, the quality of education being provided in many urban schools is poor. In both 1994 and 1996, 60 percent of the child school districts failed to achieve basic levels of competency in reading and math on the National Assessment of Educational Progress. For children in high-poverty urban school districts, the outcomes were even worse: 77 percent failed to achieve basic competency in reading, and 67 percent failed to achieve basic levels of competency in math. In suburban schools, 43 percent of students cannot afford for its students to fail these basic tests. As America's mayors gathered at the White House Education Summit in May 1998; however, it is the lowest-performing that represent our greatest and most urgent challenge.

**Exhibit 13**  
**"Basic" Achievement in Inner-City Schools Lags**  
**Percent Students Testing at "Basic" Levels,**  
**Urban and Non-Urban Schools**



Source: National Association of Educational Progress (NAEP), 1994 and 1996

**School completion is low in urban high schools.** Too many students simply are not getting the help they need at school, at home, or in the community to keep them in school -- and not securing some post-secondary education. In cities where the cost of living is higher and the cost of education is costlier than ever, graduating from high school and attending college seem a dream to millions of urban youth. Although dropout rates have been falling in many cities, scores rising in key large urban districts, including Los Angeles, approximately 50 percent of the high school class of 1994 did not graduate on time. Indeed, about half of all big-city school districts fail to graduate in four years.<sup>29</sup>

**Exhibit 14**  
**In Many Urban Districts, Most Students**  
**Do Not Graduate on Time**  
**Dropout and Attrition Rates for Selected Urban School Districts (in**  
**1993-94**

City	Dropout Rate	Attrition Rate*
Atlanta	3.7	52
Baltimore	NA	74
Boston	7.5	46
Chicago	NA	54
Cleveland	NA	70
Dallas	4.0	63
Detroit	NA	72
Hartford	10.5	60
Houston	10.2	63
Kansas City, MO	13.7	76
Los Angeles	12.0	47
Minneapolis	18.1	60
New Orleans	8.5	60
New York City	NA	69
Philadelphia	10.2	70
Phoenix	NA	54
San Diego	4.4	34
San Francisco	4.3	32
Seattle	NA	45
Washington, D.C.	20.9	36

Source: *Education Week* on the Web, January 1998

\* The attrition rate is the percent of an entering freshman class that fails to graduate by the end of 4 years. It includes permanent dropouts, temporary dropouts who fail to graduate on time, and students who repeat one or more grades. For this analysis "attrition" is measured as the percent decline in the size of the class of 1994 from enrollment in the fall of 1990 to graduation in the spring of 1994 minus any decline in the district's high school enrollment during the same period. An adjustment is made for the decline in enrollment to reduce the effect of population changes in the district.

**Closing the Education Gap: Administration Response**

Urban education is a major priority in the President's budget submission to C

Education is primarily the responsibility of State and local governments, families, individuals, and the private sector. Nevertheless, the Federal Government has a stake in supporting education, from preschool through adulthood. And because of the unequal educational resources that have hit hardest in inner city districts and schools that often failed their students, responding to the challenges of urban education is a priority of the President's education policies.

*"We are in competition with information industries of all sorts for skilled, literate, knowledge workers. The distinction between those prepared to do this kind of knowledge work and those who are not will become worse, not better, as we approach the 21st century unless action is taken very quickly."*

**Raymond Smith, Chairman & CEO, Bell Atlantic,  
Community 2020 Seminar Series, U.S. Department  
of Housing  
and Urban Development**

The FY 1999 budget includes \$1.5 billion over 5 years for 50 high-poverty, inner city and rural school districts, to be designated as **Education Opportunity Zones**. In these zones, they adopt tough reforms to hold schools accountable for improving quality, expanding public school choice, ending social promotion, and showing real improvement in student achievement. In addition, the budget request funds for an **America Reads Campaign** to increase literacy in the inner city; and **High Hopes for America's Youth** to help school students learn what it takes to go to college -- and prepare to get the job. **Educational Zone Academy Bonds** will help school districts in distressed areas attract private-sector involvement in -- and private-sector capital for -- serious education reform. Two kinds of **School Modernization Bonds** will help countless schools build the physical foundations that schools must provide our young people to make the dream possible. Funding for 100,000 new public school teachers will reduce class sizes in the early grades (1-3), where it matters most. Each of these initiatives is discussed in Part Two of this report.

## Cities Face a Housing Gap

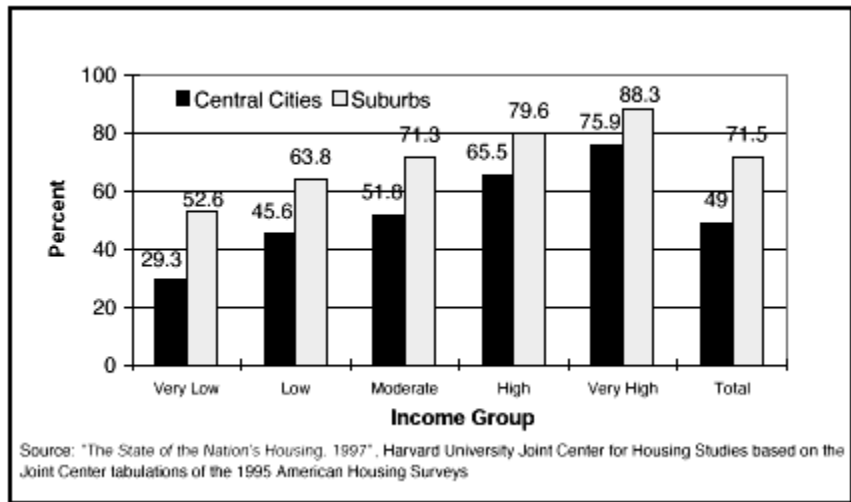
The Nation's affordable housing crisis has reached record levels, especially in inner cities. While homeownership is at its highest level ever, the central city homeownership rate continues to lag significantly behind the suburbs.

## Urban Homeownership, Including Middle-Class Homeownership, Lags Behind the Suburbs

Despite record growth in homeownership, in large measure the homeownership gaps between cities and suburbs have not closed. According to data from the 1997 Housing Survey presented in the Harvard University Joint Center for Housing Studies annual report *The State of the Nation's Housing 1997*, center city residents' homeownership levels are less likely to own a home than suburban residents with similar income. For example, among moderate-income households (those with income between 60 and 120 percent of area median), 71.3 percent of suburban residents own a home, but only 58.7 percent of center city residents are homeowners.

### Exhibit 15 Homeownership Is Lower in Cities

### Regardless of Income Level Percent of Households in Each Category



### Discrimination Adds to the Homeownership Gap

The spatial gap in homeownership reflects, in part, the persistent gap in home ownership opportunities for racial and ethnic minorities. The Harvard University Joint Center document that African-American and Hispanic households of all income levels are less likely to own a home than white households of the same income group. This persists, even among households with incomes that are 20 to 50 percent higher than the median. While 78.3 percent of white households in this income group owned a home, the share for African-Americans is only 62.7 and for Hispanics only 64.5 percent.

*"If we are going to build communities that are truly equal, communities where everyone has a fair chance; there are several things that we need to do and we need to do them together as a policy. Creating jobs in a robust, growing economy, enforcing our fair housing and other civil rights laws, strengthening affirmative action, offering more and better funded education and training, putting in place a trade policy that preserves the good jobs that we already have."*

**Linda Chavez-Thompson, AFL-CIO, Community 2020 Seminar Series, U.S. Department of Housing and Urban Development**

While the spatial and racial gaps in homeownership reflect many factors, the report concludes that they are the legacy of "decades of discriminatory practices. Yet, the Harvard study concludes, "Prejudicial lending and housing market practices plague some areas of the country." Mortgage lending information gathered by the Federal Reserve Board under the Home Mortgage Disclosure Act (HMDA) shows that households applying for mortgage credit were much more likely to be rejected in central city and in minority neighborhoods with similar income. Similarly, denial rates -- for whites as well as for minorities -- were highest in central city and in minority neighborhoods.

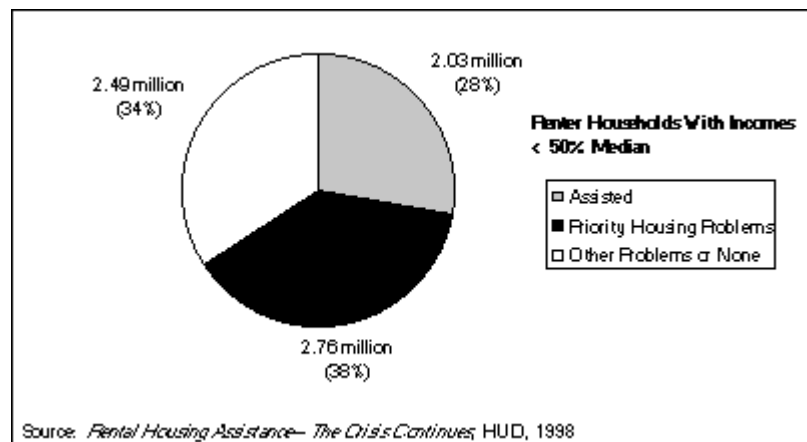
### Housing Needs Are at Record Levels

Despite strong economic growth, the number of very low-income renter households with worst case needs (paying at least half their income in rent or living in inadequate housing) remained at its record-high level of 5.3 million in 1995.<sup>30</sup>

**Central Cities are Hardest Hit.** The housing affordability crisis remains most acute in America's central cities, where half of all very-low-income renters (almost 7.3 million with incomes less than half of the area median) live. Twenty-eight percent of these households receive some type of rental assistance.<sup>31</sup> The majority of the 5 million unassisted very low-income urban renters, however, experienced severe housing problems in 1995.<sup>32</sup> Over the period 1991 to 1995, the number of renter households with worst case needs in central cities grew by 219,000 to 2.8 million, with particular increases occurring in the Northeast and West.

**Worst Case Needs Increasingly Affect the Working Poor.** According to a 1998 report, *Rental Housing Assistance -- The Crisis Continues*, worst case housing needs grew fastest among the working poor. Between 1991 and 1995, worst case renter households with at least one person earning a full-time paycheck rose by 265,000, a 24 percent increase.

**Exhibit 16**  
**Millions of Urban Renters Have "Worst Case" Needs**  
**Housing Needs and Assistance Among Very Low-Income Central Cities in**  
**1995**



Worst case needs are particularly concentrated among city households with incomes below 30 percent of the area median -- a level that roughly corresponds to the poverty threshold.<sup>33</sup> An analysis by the Harvard University Joint Center for Housing Studies found that five out of every six unassisted renter households with very low incomes paid half their income in rent or lived in structurally inadequate housing.

The number of elderly households with worst case needs remained above 1 million in 1995, while more than 2 million families with children had worst case housing needs. Among households with very low income, both families with children and households with an elderly head but no children had almost a one-in-three chance of having worst case needs. Families with children represent the largest group of households with worst case needs -- more than 2.1 million households of the total 5.3 million worst case households. Just over 1 million elderly individuals or heads of households without children had worst case housing needs. This situation occurs despite the fact that housing assistance has been heavily directed toward these two groups -- 37 percent of very-low-income households and 29 percent of very-low-income families with children receive housing assistance.

***There has been a sharp decline in affordable housing.*** The private rental stock affordable to these households has been shrinking rapidly: between 1994 and 2000 there was a loss of 900,000 rental units affordable to very-low-income families, a reduction of 9 percent. The largest losses of private rental stock, in percentage terms, were for units affordable to extremely-low-income renters (households with income less than 30 percent of area median) -- a 16-percent reduction.

***There have been no new housing vouchers for families on the waiting list since 1994.*** The ongoing housing affordability crisis has been aggravated by Congress' refusal to approve new rental assistance for families on the waiting list. Since 1995, Congress has denied the Administration's request for assistance to mitigate worst case needs. Indeed, Congress rescinded funding that had been appropriated in 1994. This represents a historic reversal of Federal policy. From the Great Depression until 1994 -- under both Democratic and Republican Administrations and in periods of economic boom and recession -- Congress expanded the availability of rental assistance. In light of the substantial reduction in affordable rental housing, the failure to increase housing assistance further exacerbates the housing crisis in the Nation's cities.

***The need for homeless assistance remains acute.*** Beginning in the 1980s, the number of homeless people in America increased to its highest level in 50 years. A recent study found that as many as 7 million Americans experienced homelessness at least once in the latter half of the 1980s. Of the total homeless population -- some 600,000 at any given night -- some suggest that the number of families with children now exceeds 30 percent of the homeless population, increasing the need for transitional housing with access to day care, decent education, and other family support services for single adults. Some homeless persons who suffer from mental illness or substance abuse, who need a variety of services beyond immediate shelter. As a result of the Continuum of Care program, which coordinates Federal, State and local resources for homeless people, an increasing number of formerly homeless families and individuals are moving into transitional or permanent housing. Nevertheless, there remains a shortfall between the scope of the homeless population's need for housing and the level of resources that are available.

The consequences of the lack of affordable rental housing spill over into other areas of concern. Each day families with worst case needs must make the difficult choice between paying for housing and buying other necessities such as food, medicine, transportation, and child care. A recent report from the Doc4Kids Project at Boston Medical Center estimates, for example, that almost 18,000 inner-city children are hospitalized for asthma often caused by infestations of roaches.<sup>34</sup> Other problems reported include slow mental development from lead poisoning, stunted growth and anemia from malnutrition, and injuries from living in unsafe housing. And the consequences include the damaged lives of untold numbers of the Nation's children who are at increased risk of violence, psychological disturbances, infections, and poor school performance.

*"While Denver's overall quality of life has been uplifted in recent years due to a strong economy, we must also consider the effects our success has had on access to housing. Housing availability directly impacts our ability to maintain continued economic investment. Initiatives like the HOME Program and the newly proposed HOME Bank are needed."*

**Wellington E. Webb, Mayor of Denver**

## Closing the Housing Gap: Administration Response

The President's budget includes a range of proposals to increase homeowner fair housing and fair lending, expand rental housing assistance, and reduce HUD. To help thousands of hard-working middle-class American families qualify to become homeowners and expand homeownership opportunities in higher cost central city neighborhoods, the FY 1999 budget proposed raising the **FHA home mortgage insurance loan limits** used by the Federal Housing Administration to a single standard of \$227,150. The budget also proposes an **additional 100,000 Section 8 rental assistance vouchers**; a new **HOME Bank** that will expand the use of successful HOME housing block grant funds; another round of **Homeownership** record funding for homeless assistance programs; a \$1.6 billion expansion of the **Income Housing Tax Credit**; and a doubling of funding for **fair housing education**. Together, these proposals will help central cities expand homeownership opportunities for middle-class families, while providing needed resources to address the critical need for affordable housing that undermines the well-being of low-income, central city residents. Last year, the Administration and Congress worked together to pass historic legislation to ensure that families currently using housing vouchers are able to remain in their homes. This year, working with the same bi-partisan spirit, Congress can pass the legislation providing the resources needed to address the housing gap that confronts our cities.

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HUD USER, P.O. Box 23268, Washington, DC 20026-3268  
Toll Free: 1-800-245-2691  
TDD: 1-800-927-7589  
Local: 1-202-708-3178  
Fax: 1-202-708-9981



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