

March 19, 1997

THE AMERICAN COMMUNITY RENEWAL ACT OF 1997

By *Christine L. Olson*
Policy Analyst

Congress will have an opportunity in the near future to promote both the moral renewal and the economic revitalization of America's most poverty-stricken urban and rural areas. The vehicle by which policymakers hope to accomplish this daunting task is the American Community Renewal Act of 1997 (H.R. 1031), sponsored by Representatives J. C. Watts (R-OK), James Talent (R-MO), and Floyd Flake (D-NY), as well as Senators Joseph Lieberman (D-CT) and Spencer Abraham (R-MI). This bill is designed specifically to empower residents and families living in troubled communities across America to take control and make their communities vibrant and safe again. Through tax incentives and regulatory relief, coupled with innovative school reform pilot projects and homeownership incentives, the American Community Renewal Act of 1997 would:

- **Increase** job creation;
- **Spur** the creation and expansion of small businesses;
- **Increase** homeownership;
- **Rebuild** community institutions;
- **Expand** educational choice opportunities for children of the poor;
- **Boost** greater private philanthropy to aid the poor;
- **Increase** volunteerism; and
- **Prompt** greater participation by religious organizations in providing services to the poor.

¹ This study is an update to *Issue Bulletin* No. 228

Recent studies have shown that community-based, comprehensive approaches to community development are the best way to bring substantive change to distressed and impoverished neighborhoods.² Local initiatives have been the most effective means of attacking the difficult problems of joblessness, inadequate education, crime, drugs, and welfare dependency that individuals and families face in these communities. For many years, government agencies tended to focus on single issues, such as housing or health care; but a 1989 study reported that 81 percent of families in poverty face multiple obstacles to achieving self-sufficiency.³ Policymakers increasingly realize that a piecemeal approach to urban policy is not likely to succeed. As former Housing and Urban Development Secretary Henry Cisneros put it, "We believe the best strategy to community development is a community-driven, comprehensive approach which coordinates economic, physical, environmental, community and human needs."⁴

A broad approach to the problems facing American communities is essential. Far too many neighborhoods in urban and rural America are characterized by rapidly increasing rates of juvenile crime, illegitimacy, joblessness, welfare dependency, and single-parent households. These serious problems are exacerbated by the weakening of the moral and social fabric of the communities themselves, and especially by weaknesses in the local economy. Fewer and fewer employers are willing to risk locating businesses in these areas; hence, future economic growth and job opportunities that could revitalize these neighborhoods are severely hampered. Moreover, the quick-fix, short-term solutions offered by Washington over the last three decades—like raising the minimum wage—have done little to improve the lives of people entangled in the web of poverty, crime, and illegitimacy. Policymakers who view the decline of such communities as a result of only one problem, such as an influx of drugs, and who target resources to address that one problem therefore cannot bring about real and sustainable reform. The complexity and interrelation of these problems requires a concerted, comprehensive approach.

To rebuild the broken lives and economies of such distressed American localities, Congress needs to strip away the regulatory and institutional barriers that thwart the efforts of the leaders, businesses, and residents of these communities to bring about reform. The American Community Renewal Act offers a wholly new and comprehensive urban policy to these residents, empowering them to participate actively in decisions that affect their day-to-day lives rather than subject themselves passively to the decisions of inflexible government social service and education bureaucracies. The reforms spelled out in the act also will create a far more favorable climate for business activity.

The American Community Renewal Act—or the Community Renewal Plan (CRP), as it also is known—will give Congress and the Administration an opportunity to change the 30-year pattern of federal involvement in community development. By decreasing federal regulations and taxes, by increasing parents' freedom to choose schools that reflect their ideals, by inspiring homeownership, and by increasing business development

2 U.S. General Accounting Office, *Community Development: Comprehensive Approaches Address Multiple Needs But Are Challenging to Implement*, February 1995.

3 Sar Levitan *et al.*, *A Proper Inheritance: Investing in the Self-Sufficiency of Poor Families* (Washington, D.C.: George Washington University, Center for Social Policy Studies, July 1989).

4 GAO, *Community Development*, p. 28.

and jobs, the CRP will take the communities that need the most assistance and turn them into local laboratories of reform, generating ideas and inspiration for other communities across the nation.

HOW THE ACT WOULD RENEW AMERICAN COMMUNITIES

The American Community Renewal Act is composed of six main elements: creating 100 “renewal communities,” expanding the Work Opportunity Tax Credit, creating education scholarships for poor children within renewal communities, facilitating homeownership in renewal communities, creating a charitable contribution tax credit, and preventing and treating substance abuse.

- **Creation of Renewal Communities.** The first element of reform is Title I of the Community Renewal Plan, which would create up to 100 renewal communities across the nation. The areas chosen would be selected according to the degree to which they are characterized by poverty and distress (details on the selection criteria are given in the next section). Through tax relief, regulatory reform, and savings incentives directed at recipients of the Earned Income Tax Credit (EITC), Title I would aid the nation’s poorest communities. In summary, for a period of seven years, Title I would:
 - ◆ **Provide and encourage federal, state, and local tax and regulatory relief** through provisions such as the 100 percent capital gains tax exclusion on qualified assets that are held within a renewal community for at least five years;
 - ◆ **Enhance and increase community investment and ownership,** in part through the creation of Family Development Accounts which would encourage EITC recipients to save money, tax-free, for certain expenditures such as higher education or buying a home for the first time;
 - ◆ **Improve** the delivery of local government services by encouraging privatization and efficiency; and
 - ◆ **Encourage** financial institutions to maintain a presence in the troubled communities and to invest in designated renewal communities.
- **Expansion of the Work Opportunity Tax Credit.** Congress passed the Small Business Protection Act in 1996 to extend the life of the expired Targeted Jobs Tax Credit an additional year, making it the Work Opportunity Tax Credit (WOTC). This tax credit now provides incentives to employers to hire welfare recipients or “high-risk” youth living within renewal zones—individuals who generally have difficulty securing permanent employment. The Community Renewal Plan extends the Work Opportunity Tax Credit for the life of the renewal communities—a maximum of seven years.
- **Education Scholarships for Poor Children in Renewal Communities.** Renewal communities would be required to administer the federally funded Low-Income Educational Opportunity Scholarship Program established under Title III of the bill. Low-income parents living within these communities would be eligible for federally funded scholarships enabling them to send their children to primary and secondary

schools of their choice. Poor parents thus would be able to send their children to any of a variety of schools that might better suit their needs, including alternative public schools, private schools, and private religious schools. Because religious schools can play a critical role in rebuilding the moral foundation of America's inner cities, they have been included as an essential component of the scholarship program.

- **Renewal Community Homeownership.** To provide housing opportunities for low-income families, the U.S. Department of Housing and Urban Development (HUD) would transfer its ownership of qualified unoccupied or substandard houses located within the renewal communities to the jurisdiction of the local government. These houses then would be offered for sale to nonprofit community development corporations, which would renovate them at a reasonable cost and make them available to low-income families for purchase.
- **Charitable Contribution Tax Credit.** The American Community Renewal Act provides taxpayers a 75 percent tax credit of an amount contributed to a private charity that is providing direct services to the poor. In order to qualify for this tax credit, an individual personally must volunteer at least ten hours at the organization during the qualifying tax year. The maximum eligible yearly contribution would be \$100 for single filers and \$200 for joint filers. The credit would expire after three years (in the year 2000), and would be available to all federal income tax filers who itemize their deductions.
- **Prevention and Treatment of Substance Abuse.** Until now, religiously affiliated drug treatment centers have been excluded from funds available to non-religious nonprofit groups under the Public Health Service Act. Title IV of the American Community Renewal Act would amend current law to allow religiously affiliated drug treatment organizations to receive, through direct grants or vouchers, federal funds for their service. Faith-based centers could receive funds without restrictions on religious activity as long as the recipients of federally funded treatment have selected the faith-based treatment program. Title IV also recognizes that religious education and religiously motivated drug treatment personnel can play a vital role in effective drug treatment. The legislation seeks to loosen the unnecessary, bureaucratic credentialing requirements for treatment staff which may bar religious drug treatment programs from receiving federal drug rehabilitation funds. These provisions would apply nationwide.

CREATING RENEWAL COMMUNITIES

Under Title I of the Community Renewal Plan, state or local governments would apply to the Department of Housing and Urban Development to have certain depressed areas designated as "renewal communities." Up to 100 such communities would be created nationwide under the CRP. To qualify, the local area must be characterized by a prevalence of residents with low income, and the local authorities must agree both to ease regulations impeding economic activity and to operate the Title III scholarship program. If more than 100 localities applied to become renewal communities, HUD would select the 100 poorest. Upon selection as a renewal community, a locality would receive substantial tax and regulatory relief. Designated renewal communities would retain their status for seven years.

Eligible localities. To become one of the 100 renewal communities, a local area must be nominated by a state or by local government officials and must meet the following criteria:

- The locality is an economically depressed area within a larger city or county;
- It has a continuous boundary and is located within the jurisdiction of one local government;
- It is characterized by pervasive poverty and distress and located entirely within the jurisdiction of a local government that is eligible to receive Community Development Block Grant funds according to Section 119 of the Housing and Community Development Act of 1974 (in other words, a renewal community must be a subsection within the jurisdiction of a local government that is itself characterized by poverty and distress, not simply a pocket of poverty within an area of general affluence);
- It has an unemployment rate at least 1.5 times the national unemployment rate;
- Each of its census tracts has a poverty rate of at least 20 percent;
- At least 70 percent of its households have incomes below 80 percent of the median income of all households within the jurisdiction of the local government; and
- If any part of an area is located within a metropolitan statistical area (MSA)—an area with a population greater than 50,000—that part has a minimum population of at least 4,000; for all other non-rural and non-MSA areas, the population within the proposed community must be at least 1,000, or located entirely within an Indian Reservation.

In addition, 25 percent of the renewal communities selected must be located in rural areas. For an area to be considered “rural,” it must be within a local government jurisdiction of fewer than 50,000 people that is outside a metropolitan statistical area (MSA) as defined by the Census Bureau, or otherwise be considered rural by the Secretary of Housing and Urban Development.

Finally, the 105 empowerment zones (EZs) and enterprise communities (ECs) created by the Omnibus Budget Reconciliation Act of 1993 are areas that have qualified for a modest combination of government grants and special tax breaks. These EZs and ECs would not lose their current benefits if they became renewal communities under the CRP. Moreover, in order to encourage these communities to apply, special considerations would be given to them for the first 50 slots. Current EZs and ECs can apply on a first-come, first-served basis and do not have to meet the demographic qualifications listed above. After the first 50 designations have been made, however, EZs and ECs will be on equal footing with other applicants — the first come, first served provision will no longer be in effect.

Required commitments by local officials. For an area to become a renewal community, state and local government officials and representatives of neighborhood organizations must express in writing their commitment to reduce taxes, regulations, and burdens on the businesses within that renewal community area in at least five of the following seven ways:

- **Reduce** taxes and fees;
- **Increase** the level of efficiency of local services;
- **Develop and implement** crime reduction strategies;
- **Streamline** government requirements and regulations;
- **Foster** coordination between and involvement of private organizations and community groups, and encourage such groups to provide jobs and job training as well as technical, financial, or other assistance to employers, employees, and residents of the renewal community;⁵
- **Provide** state or local income tax benefits for fees paid for services, such as trash collection, that formerly were performed by government but have been privatized; and
- **Encourage** the donation or sale of land, homes, and commercial/industrial structures to neighborhood organizations, community development corporations, or private companies.

Required economic growth measures. To establish a renewal community, state and local officials must repeal or suspend government regulations, except for those required to protect health and safety. Examples of regulations to target for suspension or repeal include:

- **Licensing requirements** for occupations that do not require a professional degree;
- **Zoning restrictions** on home-based businesses that are not a public nuisance;
- **Permit requirements** for street vendors who are not a public nuisance;
- **Zoning and other restrictions** that impede the formation of schools and child care centers; and
- **Restrictions on competition** for businesses providing public services, such as cable TV, taxicabs, or trash removal.

TAX INCENTIVES TO STIMULATE JOBS IN POOR NEIGHBORHOODS

Enterprise zones, if crafted correctly, hold great promise for restoring economic vitality to poor neighborhoods.⁶ Experience with enterprise zones has shown that, over time, targeted tax relief on business activity in depressed inner-city areas can cut the unemploy-

5 Prudence Brown, *Comprehensive Neighborhood-Based Initiatives: Implications for Urban Policy*, University of Chicago, Chapin Hall Center for Children, December 10, 1993. Studies have shown that initiatives to revitalize communities work best when the residents are involved, investing their own resources and aware of their own needs in such a way that they are able to bring about change and foster community pride and ownership.

6 See Stuart M. Butler, *Enterprise Zones: Greenlining the Inner Cities* (New York, N.Y.: Universe Books, 1981); see also Stuart M. Butler, "The Urban Policy America Needs," Heritage Foundation *Executive Memorandum* No. 330, May 5, 1992.

ment rate in those areas by one-third or more.⁷ To create jobs and stimulate business activity in local communities, the Community Renewal Plan will match tax cutting and deregulation at the local level with a sharp reduction in federal taxes for that locality.

- **Expanding the Work Opportunity Tax Credit.** The Work Opportunity Tax Credit (WOTC) encourages the employment of those whose past may make it difficult to secure a good job and make a fresh start in life. The tax credit offsets the cost of hiring persons who fall into a number of categories, including AFDC or food stamp recipients and their families, economically disadvantaged veterans, ex-felons, high-risk youth, vocational rehabilitation referrals, and qualified summer youth.

Specifically, employers are eligible to claim a 35 percent credit on the first \$6,000 of wages paid to a qualifying individual in the first year (for a maximum credit of \$2,100). In the case of certain summer youth, employers can claim a 35 percent credit on \$3,000 of wages (for a maximum credit of \$1,050).

In order to foster the employment of disadvantaged individuals, this tax credit is extended beyond the current one-year life span of the WOTC. It is available to employers who hire renewal community residents for the life of the renewal community (a maximum of seven years).⁸ In addition, provisions of the WOTC which apply only to existing Enterprise Communities and Empowerment Zones, such as tax credits for hiring at-risk youth, are expanded to include renewal communities.

- **Exclusion from capital gains.** Once a local area has been designated a renewal community, the bill would reduce federal taxes on private investments in any qualified renewal community enterprise (defined as a business that derives at least 80 percent of its gross income from within the community and has at least 35 percent of its employees living in the renewal community). The tax benefits for investments in qualified businesses within the renewal community area include a 100 percent exclusion of capital gains tax. An individual would not be taxed for any capital gains resulting from the sale of assets of a qualified renewal community enterprise that had been held for more than five years. This exclusion is limited to \$100,000 per tax year and a \$500,000 lifetime total.
- **Tax credit for commercial revitalization.** To encourage the renovation of decaying buildings that often blight impoverished areas, Section 203 of the bill gives taxpayers a credit equal to a percentage of their qualified revitalization expenditures within the renewal community. A person either could receive, up front, a tax credit of 20 percent of revitalization expenditures for the tax year in which a revitalized building is completed or could elect to receive a credit of 5 percent each year for ten years, beginning with the year the building is completed. The maximum expenditure for which a taxpayer may receive credit is \$10 million. The building may not be a residence and

7 Terry Van Allen, *The Impact of Enterprise Zones on Employment* (San Francisco, Cal.: Austin Winfield, 1995), p. 109. This research shows that tax relief in the zones studied reduced unemployment in general by 6 percentage points, from 15.9 percent to 9.9 percent.

8 In order to qualify as a renewal community resident, an employee must have resided within the community for at least one year.

must be located within the renewal community, and the revitalization costs must exceed 25 percent of the fair market value of the structure.

- **Deduction for tangible property.** Individuals and businesses in these communities would have reduced levels of up-front taxation on investments in tangible property within the renewal community. Under current federal income tax law, businesses and individuals may deduct up to \$25,000 from their federal income tax to cover current year capital investment costs. Under the CRP bill, \$35,000 could be deducted for investment in renewal community businesses.⁹
- **Deduction for environmental clean-up costs (“brownfields” relief).** Many urban areas are not attractive investment venues because of environmental contamination that would have to be removed to comply with federal and state laws. This increases the attraction of setting up businesses in the suburbs, or “greenfields.” Providing tax relief for compliance with abatement mandates would allow businesses to expense the costs incurred during cleanup, creating incentives to invest in zones with environmental contamination.
- **Establishing Family Development Accounts for EITC recipients.** Section 201 of the bill authorizes the creation of Family Development Accounts (FDAs) to encourage low-income families to save a portion of their income or their Earned Income Tax Credit refund. Cash donations would be deductible, even if the individual does not itemize deductions when filing income taxes. Contributions to FDAs would be limited to the lesser of \$2,000 or the total amount of a person’s compensation included in gross income for a given tax year. Persons donating to the family accounts of others would be limited to a deduction of \$1,000.

Withdrawals from these accounts would be tax-free if the money is used for certain specified expenditures. Family Development Account funds could be used tax-free for the following expenses:

- ◆ Post-secondary education tuition and expenses;
- ◆ The cost of purchasing a first home;
- ◆ Business capitalization expenditures, including capital, plant, equipment, working capital, and inventory expenses (businesses would be required to have an approved business plan);
- ◆ Medical expenses not otherwise covered by insurance; and
- ◆ Qualified rollovers which involve paying into another individual’s FDA with funds from one’s own account.

⁹ For every dollar by which expenditures for property exceed \$200,000 in value, the \$35,000 threshold under current law is reduced by \$1. For empowerment zone businesses, however, this reduction would be only 50 cents for every dollar, enabling a qualified business to spend up to \$270,000 and still be able to deduct a part of that expenditure in the first year of ownership.

If an employer paid into a worker's FDA, the employer's contribution would be counted as compensation. Matches also could be provided by state or local governments, service organizations, corporations, local churches, foundations, or other organizations.

- **Matching fund program demonstration areas.** Under the bill, the Secretary of Housing and Urban Development could select up to 25 renewal communities (including at least two rural areas), based on their relative impoverishment, to serve as demonstration areas for an FDA matching fund program. Within these demonstration areas, each qualified individual making a deposit into an FDA account would receive a matching amount from the federal government, up to \$1,000 each year. The maximum one person could receive from the federal government in this matching fund program is \$2,000.
- **Community Reinvestment Act.** To encourage financial institutions to maintain a presence and invest in designated renewal communities, Section 403 of Title IV directs that such efforts be taken into account when assessing an institution's compliance with the Community Reinvestment Act of 1977 (12 U.S.C. 2903).

CREATING EDUCATIONAL OPPORTUNITY SCHOLARSHIPS

In order to become a renewal community, local officials must agree to operate the CRP's Low-Income Educational Opportunity Scholarship Program. This program provides federally funded scholarships to poor parents to enable them to send their children to a broader range of primary and secondary schools. It has two goals:

GOAL #1: Expand educational opportunity for poor children by giving their parents a broader range of choice in determining where a child goes to school; and

GOAL #2: Encourage a moral renewal in the community by enabling poor parents to send their children to religious schools which teach moral principles and emphasize virtue as an essential ingredient of education.

Parental Right of Choice

Under the CRP scholarship program, parents would be eligible to receive funds for their children's education if: a) they live in the designated renewal community; b) the family income does not exceed 185 percent of the poverty line; and c) they have elected to participate in the program. Parents of children who receive financial assistance under this program would be free to choose a school from a wide range of types, including alternative public schools, charter schools, private schools, and private religious schools.

To be eligible, a private or private religious school within the renewal community must meet the health and educational standards for private schools which existed as of January 1, 1997.¹⁰ All schools that redeemed these special scholarships would be re-

¹⁰ The bill permits the scholarships to be redeemed in any private school that meets the standards for operation of schools in the locality in the beginning of 1997. The bill uses a fixed date in order to prevent a locality from creating a new set of regulatory barriers with the intent of blocking most private schools from redeeming scholarships.

quired to comply with the anti-discrimination provisions of Section 601 of Title VI of the Civil Rights Act of 1964 and prohibited from discriminating on the basis of race.

The bill would require renewal communities to give parents timely information to enable them to make informed decisions about the education of their children. At the very least, the information would have to explain the scholarship fund, describe the eligibility requirements and selection procedures, and provide information about alternative public schools and scholarship schools.

A locality would have to allocate scholarships and transportation aid to eligible parents who apply for aid on a first-come, first-served basis or through another mechanism of selection determined by the locality. The locality could not discriminate on the basis of the type of school selected by the parent. These scholarships are not entitlements.

Types and Value of Scholarships for Poor Children. Far too many poor children are trapped in poorly performing schools. Funds under the scholarship program are intended to broaden the educational choices of poor parents and children within the renewal community. If the parents chose to send their child to an alternative public school (for which tuition is already paid), they would receive funds to cover the costs of transportation. If they elected to send their child to a private school, they would receive a scholarship for the child which could be used only to pay for tuition and educational fees at the selected school.

Each renewal community would be given a fixed amount each year to pay for scholarships and transportation aid for poor children. If the number of low-income parents who applied for scholarships or transportation aid is not sufficient to utilize all the funds available, surplus funds could be used to assist in educating low-income children within the community's public schools.

Each locality would determine the precise monetary value of scholarships for children in their locality. The bill establishes a range of options, but the maximum value of the scholarship must not exceed the per capita cost of educating children in a public school in the locality. Further, the scholarship must have minimum value which shall not fall below the lesser of a) 60 percent of the average cost of educating children in the public schools in the locality during the preceding year or b) the normal tuition charged by the private school.¹¹

Enabling a Moral Renewal

Americans are increasingly concerned about the character and quality of American society, the apparent decline in the culture, and the corrosive influences of that culture on family life and the moral condition of the country. These concerns are common, regardless of racial or income group or where Americans live and work. For a variety of reasons, individuals and families—especially children in impoverished communities—are

¹¹ For students with disabilities, the scholarships would be based on the average per-pupil cost per semester incurred for students with similar needs or handicaps who were in the public school system in that renewal community during the previous year.

even more vulnerable to social pathologies, including violent crime, illegal drug use, and illegitimacy and family breakdown.¹²

Importance of Religion. A central goal of the Community Renewal Plan is to help foster moral renewal in inner-city communities plagued by crime, drug abuse, sexual promiscuity, and family disintegration. The sponsors of the American Community Renewal Act recognize that moral renewal is critical to solving urban social problems and that building a sound moral foundation is the most important aspect of a child's education. The power of religion to help the poor help themselves is amply documented.¹³ Investigating the condition of black inner-city youth, Richard Freeman of Harvard University found that boys who attend church regularly are 50 percent less likely to engage in crime than boys of similar backgrounds who do not attend church; they also are 54 percent less likely to use drugs and 47 percent less likely to drop out of school.¹⁴

Boys and girls who attend church regularly are two-thirds less likely to engage in sexual activity in their teens. Regular church attendance reduces by 50 percent the probability that a woman will have a child out of wedlock.¹⁵ Children attending religious schools are two-thirds less likely to drop out than are nearly identical children who attend secular schools.¹⁶ Children 10 to 18 years of age who do not attend church are one-third to one-half more likely to exhibit anti-social and dysfunctional behavior.¹⁷

Social consequences follow school choice.¹⁸ The bill enables poor parents to give their children a sound, community-reinforced moral upbringing by allowing them to use scholarships to send their children to religious schools.

Constitutional issues. The U.S. Supreme Court has held that as long as the parent and not the government decides where the scholarship will be spent on a child's behalf, public funds can be used for education in a religious institution. In such cases, the government has neither advanced nor inhibited a particular religion, and therefore has not violated the Establishment Clause of the First Amendment.¹⁹ For example, in the 1986 case

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- 12 For an account of the problems confronting inner-city families with respect to violent crime, see Patrick F. Fagan, "The Real Root Causes of Violent Crime: The Breakdown of Marriage, Family, and Community," Heritage Foundation *Backgrounder* No. 1026, March 17, 1995; see also Patrick F. Fagan, "Social Breakdown in America," in *Issues '96: The Candidate's Briefing Book*, ed. Stuart M. Butler and Kim R. Holmes (Washington, D.C.: The Heritage Foundation, 1996), pp. 163-196.
 - 13 See Patrick F. Fagan, "Why Religion Matters: The Impact of Religious Practice on Social Stability," Heritage Foundation *Backgrounder* No. 1064, January 25, 1996, pp. 13-14.
 - 14 Richard B. Freeman, "Who Escapes? The Relation of Church-Going and Other Background Factors to the Socio-Economic Performance of Black Male Youths from Inner-City Poverty Tracts," National Bureau of Economic Research *Working Paper Series* No. 1656, 1985.
 - 15 Heritage Foundation research based on the National Longitudinal Survey of Youth.
 - 16 James S. Coleman, "Social Capital in the Creation of Human Capital," *American Journal of Sociology*, Vol. 94, Supplement (1988), p. S1115.
 - 17 Heritage Foundation research based on the National Longitudinal Survey of Youth.
 - 18 See Denis Doyle, "The Social Consequences of Choice: Why It Matters Where Poor Children Go to School," Heritage Foundation *Backgrounder* No. 1088, July 25, 1996.
 - 19 *Zobrest v. Catalina Foothills Sch. Dist.*, 509 U.S. 1 (1993); *Mueller v. Allen*, 463 U.S. 388 (1983); and *Witters v. Washington Dept. of Services for Blind*, 474 U.S. 481 (1986). In *Zobrest*, Chief Justice Rehnquist wrote that "we have consistently held that government programs that neutrally provide benefits to a broad class of citizens defined without

of *Witters v. Washington Department of Services for the Blind*, Larry Witters, a blind man, wished to use state vocational funds to attend a religious seminary to help him fulfill his personal goal of becoming a minister. The Court held unanimously that Witters's use of state vocational funds to attend seminary did not violate the U.S. Constitution. Writing for the majority, Justice Thurgood Marshall asserted:

It is well settled that the Establishment Clause is not violated every time money previously in the possession of a state is conveyed to a religious institution. For example, a State may issue a paycheck to one of its employees, who may then donate all or part of that paycheck to a religious institution, all without constitutional barriers.²⁰

Justice Marshall further argued that it was permissible for Witters to use government vocational funds to attend seminary because the individual, not the government itself, was determining how the money would be allocated:

Any aid provided under Washington's program that ultimately flows to religious institutions does so only as a result of the genuinely independent and private choices of aid recipients. The decision to support religious education is made by the individual, not the state.²¹

Under the bill, local officials may not prohibit poor parents from using CRP scholarships to pay for tuition in religious schools and may not discriminate in any way against parents who choose to place their child in a religious school. If provisions of a state constitution prohibit the spending of state and local funds at religious institutions,²² the renewal community can separate all federal funds from state funds. But state and local officials may not prevent poor parents from using federal scholarship funds designated for poor children to pay for tuition in religious schools.

Civil Rights and Regulatory Safeguards

To receive these scholarship funds, a school must comply with relevant anti-discrimination provisions of the Civil Rights Act of 1964. The school also must satisfy applicable state and local requirements for curriculum and facilities, and must meet health and safety standards which existed as of January 1997. Schools are ineligible if they advocate criminal behavior or are operated by an organization advocating criminal behavior.

In drafting the bill, sponsors were particularly careful to ensure that the scholarships would not become a Trojan horse leading to a government takeover of private or religious schools. The bill includes specific safeguards both to protect private schools that

reference to religion are not readily subject to an Establishment Clause challenge just because sectarian institutions may also receive an attenuated financial benefit. Nowhere have we stated this principle more clearly than in *Mueller v. Allen*, 463 U.S. 388 (1983), and *Witters v. Washington Dept. of Services for Blind*, 474 U.S. 481 (1986), two cases dealing specifically with government programs offering general educational assistance."

²⁰ *Witters*, 474 U.S. 481, 487-488 (1986).

²¹ *Ibid.*

²² These provisions often are state-based versions of the Blaine Amendment, a legal restriction on assistance to religious schools that was motivated by anti-Catholic prejudice during the 19th century.

would redeem the scholarships from government intrusiveness and to protect the liberty of religious schools:

- No additional regulations or burdensome paperwork may be imposed on private schools which redeem scholarships (Section 309[b][1]);
- Private schools redeeming scholarships will not be subject to regulations restricting religious instruction and shall be protected by the rights enumerated in the Religious Freedom Restoration Act of 1993 (Section 309[b][4]);
- Any religious school may require its employees to adhere to its religious tenets and moral code of behavior (Section 309[b][5]);²³ and
- Private schools will be permitted to operate as single-sex institutions or to operate classes separated by gender (Section 309[b][6]).

The bill's language also includes a critical clarification to protect personal and religious liberty:

- No provision may be construed to give the federal government authority to direct or control the curriculum, administration, or personnel of any private school participating in the scholarship program (Section 310[c]).

The bill requires an evaluation of the effects of the scholarship program. It authorizes studies that compare the performance of children from similar backgrounds to determine whether those from renewal communities who participate in the scholarship program outperform those who do not. In addition, the authorized studies would examine parental involvement and the degree to which it is improved when parents are able to choose where they send their children to school.

Targeting Education Funds to Poor Communities

Federal scholarship funds would be channeled to renewal communities through two funding streams: one allocating 80 percent of the total available funds and another allocating the remaining 20 percent. Through the first funding stream, the share of federal funds received by a renewal community would be pro-rated, based on the number of school-age children residing in the community with family incomes below 185 percent of poverty level relative to the total number of such low-income children residing in all renewal communities nationwide. This first funding stream creates, in effect, a "per-pupil" allocation to the renewal communities based on the number of qualified school-age children.

In order to encourage both the private sector and state and local governments to make contributions to the scholarship program, 20 percent of the total federal scholarship funds would be used as matching funds. These funds would be allocated according to the level of non-federal financial support given to the program within each renewal community. The percentage of federal matching funds given to a specific community would be equal to that community's share of all non-federal contributions to the scholarship program within all renewal communities nationwide.

²³ However, this provision may not be used as an excuse to permit racial discrimination in employment.

FACILITATING HOMEOWNERSHIP OPPORTUNITIES

Many inner-city areas are characterized by unoccupied or substandard homes and housing projects. Few incentives exist to expend capital so that low-income families can purchase and renovate these buildings. Organizations such as Habitat for Humanity can organize volunteer labor to renovate these houses, but it is more difficult to acquire the property in the first place.

In order to restore these buildings as homes and promote homeownership among low-income families within renewal communities, this bill requires that qualified unoccupied or substandard HUD-owned dwellings be transferred to the local government that has jurisdiction over the area in which the properties are located. The local government must agree to notify all community development corporations within the state that they have exclusive rights to make offers to purchase the property acquired from HUD. For six months, local governments may sell the property on a "cost recovery basis" to community development corporations; this means that they can charge for the property whatever they incurred in costs since acquiring the property from HUD. As a result, community development corporations can purchase, renovate, and put up for resale homes that will be more affordable for low-income families. In addition to promoting homeownership, transforming and renovating substandard houses within impoverished communities is an important step in efforts to reduce crime, foster a greater sense of community, and bring about overall renewal and revitalization of America's troubled neighborhoods.

REINFORCING AMERICA'S CHARITABLE SECTOR

To an increasing degree, Americans realize that the government solutions to poverty enacted during the latter part of this century have failed. Since the beginning of the War on Poverty in 1965, the U.S. has spent over \$5 trillion to aid low-income Americans.²⁴ But in many ways, poor communities are in worse condition now than when Congress started to establish this vast array of federal social programs over 30 years ago. To help remedy this, the following provision—a charitable tax credit—would apply nationwide.

The American Community Renewal Act would create a new tax credit to encourage Americans to allocate more of their charitable contributions to private organizations that are fighting poverty effectively with low administrative overhead. In addition, the credit encourages volunteerism by requiring that a minimum of ten volunteer hours be performed for the recipient organization in order to qualify for the credit. According to Section 211 of Title II, taxpayers who donate to a qualified charity would receive a 75 percent tax credit for donations up to \$100 for single, and \$200 for joint, filers. This credit would be available for all taxpayers who itemize deductions on their federal tax returns.

²⁴ For a discussion of the size and scope of the American welfare state, see Robert Rector and William F. Lauber, *America's Failed \$5.4 Trillion War on Poverty* (Washington, D.C.: The Heritage Foundation, 1995). See also Patrick F. Fagan, "Liberal Welfare Programs: What the Data Show on Programs for Teenage Mothers," Heritage Foundation *Backgrounder* No. 1031, March 31, 1995.

Under this provision, a charity is qualified to receive donations if its predominant activity is providing direct services to individuals whose annual incomes generally do not exceed 185 percent of the official poverty line. A qualified charity must provide direct services to low-income persons and may not participate in political activities such as lobbying, litigation on behalf of service recipients, public policy advocacy, public policy research, or voter registration. Only 25 percent of the organization's expenditures can be used for administrative or fundraising expenses.

The provision's underlying philosophical premise is that individual taxpayers are closer to, and understand better, the problems and needs of their communities; therefore, they are better able to make decisions about where funds should go than bureaucrats in Washington. They will target funds to programs that work. Giving taxpayers the additional means to contribute financially to worthy poverty-fighting organizations, coupled with a requirement to contribute volunteer hours, enables and encourages them to become more involved in their communities and fosters a greater sense of civic duty and fellowship.

PREVENTING AND TREATING SUBSTANCE ABUSE

Section 402 of Title IV (Prevention and Treatment of Substance Abuse; Services Provided through Religious Organizations) of the CRP would apply to communities nationwide. It amends the Public Health Service Act to meet three goals:

GOAL #1: Permit faith-based substance abuse treatment centers to receive federal assistance through direct contract or vouchers, and prohibit discrimination against such centers;

GOAL #2: Make it easier for individuals receiving federally funded drug treatment to select drug treatment therapy that is religious in nature; and

GOAL #3: Protect the rights of individuals receiving drug treatment by ensuring that no individual can be required to receive services from a religious organization and guaranteeing that individuals who do not wish to receive drug treatment services from religious entities must be provided with alternative secular services.

Faith-based drug treatment is different from secular treatment because it encourages people to look beyond themselves for the discipline, motivation, and strength to overcome addiction. Faith-based treatment has been more effective than secular treatment. Individuals who associate with religious denominations or groups have lower levels of drug use regardless of whether the denomination teaches against the use of alcohol; denominations that teach against any use of drugs or alcohol exhibit the highest rates of drug avoidance.²⁵ Religion also has been shown to be a powerful force in helping alcoholics abstain from alcohol. For over half a century, Alcoholics Anonymous has enabled participants, by invoking a higher power, to recover from their addiction.²⁶

25 Achaempong Yaw Amoateng and Stephen J. Bahr, "Religion, Family, and Adolescent Drug Use," *Sociological Perspectives*, Vol. 29 (1986), pp. 53-73.

26 Orville S. Walters, "The Religious Background of Fifty Alcoholics," *Quarterly Journal of Studies on Alcohol*, Vol. 18

In reviewing the religious treatment of addicts, research psychiatrists at the Duke University Department of Psychiatry concluded in 1992 that

religious commitment and religiously oriented treatment programs can be significant factors which ought to be considered and included when planning a mix of appropriate treatment alternatives.... Perhaps the greatest advantage of religious programs is their recourse to churches as a support system.... Religious treatment programs are not suitable for everyone. For those men and women who can accept the creeds, rituals, and commitments required of such programs there seem to be certain advantages.²⁷

Eliminating discrimination based on religious affiliation. Under Title IV of the CRP, religious organizations are eligible to receive program funds and provide drug treatment services on the same basis as any other nonprofit private organization. While religious organizations would be required to meet the general requirements for effective drug treatment, neither the federal government nor any state government receiving federal treatment funds shall discriminate against an organization because of its religious character. Neither the federal nor any state government could interfere with the definition, practice, or expression of an organization's religious beliefs; nor could they require the organization to alter its form of internal governance or remove religious art, icons, sacred scripture, or other such symbols. Religious organizations which receive funds under the bill also could require any or all employees to adhere to their organizational religious and moral tenets.

At the same time, the language of the bill would protect the religious liberty of drug users receiving treatment. Any person who objects to participating in a drug treatment program operated by a religious organization shall be given the option of receiving treatment in an alternative program operated by a secular organization.

Expanding freedom to choose treatment. States may provide beneficiaries with vouchers that enable them to choose among a wide variety of drug treatment programs under Title IV. If a person needing drug treatment uses a voucher or other form of reimbursement to enter the treatment program of choice, then the drug treatment money may be used also for religious worship and instruction that is part of the overall drug treatment program. This provision is fully in accord with U.S. Supreme Court rulings on the Establishment Clause in *Zobrest v. Catalina Foothills School District*, *Mueller v. Allen*, and *Witters v. Washington Department of Services for the Blind*.²⁸

(1957), pp. 405-413; F. Lemere, "What Happens to Alcoholics?" *American Journal of Psychiatry*, Vol. 22 (1953), pp. 674-676; and B. Larson and Susan S. Larson, *The Forgotten Factor in Physical and Mental Health: What Does the Research Show?* (Rockville, Md.: National Institute for Healthcare Research, 1994).

27 John Muffler, John Langrod, and David Larson, "'There Is a Balm in Gilead': Religion and Substance Abuse Rehabilitation," in *Substance Abuse: A Comprehensive Textbook*, ed. J. H. Lowinson, P. Ruiz, et al. (Baltimore, Md.: Williams and Wilkins, 1992), pp. 584-595.

28 See note 19, *supra*.

If a person with a drug abuse problem elects freely to participate in a religious drug treatment program rather than in the secular alternatives, then the individual could be required to follow the rules set forth in the program and to participate in any religious practice or instruction that is part of the treatment program. Any individual who does not wish to participate in a drug treatment program operated by a religious organization is given the full right to refuse such treatment and the option to attend an equivalent alternative secular treatment program.

Broadening help for the addicted. The language of the American Community Renewal Act also stipulates that state or local governments should recognize the critical role that religious education has played in providing effective drug treatment. In applying education qualifications as a condition for receiving federal funds, state or local governments would have to give credit for religious education that is equivalent to the credit given for secular coursework of similar grade levels and duration. Furthermore, any religious organization which is barred from receipt of federal drug treatment funds by means of education and credentialing standards imposed by state or local governments could appeal to the Secretary of Labor to waive such standards. The Secretary must waive the standards if: 1) the organization has provided effective drug treatment for at least three years; 2) the Secretary determines the requirements for education and training of personnel effectively bar the organization from receipt of funds; and 3) the state or local government is unable to demonstrate empirically that such qualifications are necessary for a successful drug treatment program.

CONCLUSION

Congress has an opportunity to change the direction of social policy in a way that will directly empower Americans in troubled communities to improve their standard of living and quality of life. The American Community Renewal Act of 1997 contains a comprehensive strategy designed to help resolve America's most complex community problems. It assumes that low-income Americans who want to improve their families' circumstances and help improve their communities should have choices, and that their decisions should be respected. This philosophy is grounded in the well-documented successful experiences of local organizations and community groups. The Community Renewal Plan builds on these experiences, harnessing the initiative and genius of local institutions in an empowerment strategy that can work. The American Community Renewal Act of 1997 would:

- **Reduce urban unemployment** by reducing the tax and regulatory burden on businesses in inner-city areas, thereby encouraging more businesses to locate or expand in renewal communities and create more job opportunities.
- **Increase homeownership** in renewal communities.
- **Expand educational opportunity** by providing parents in low-income localities with scholarships to pay for tuition in the public or private schools of their choice. By giving poor parents the same types of choice in education that middle-class families have, this bill provides opportunities to increase parental involvement in the education of children in renewal communities, improve the quality of the education offered to meet the demands of parents in the community, and reduce the rate of school failure.

- **Enable churches and religious institutions to rebuild the moral foundations of inner cities** by allowing poor parents to enroll their children in religious schools if they so choose and expanding access to faith-based drug treatment centers. The sponsors of the bill recognize the simple truth that the development of strong moral character which is reinforced continually by discipline and the habitual practice of virtue is a necessary foundation for success in school, work, and life itself. By allowing inner-city churches and faith-based organizations to play a far greater and more decisive role in the community, the Community Renewal Plan would facilitate efforts to combat the serious social problems now plaguing America's cities and spreading to rural communities across the nation.
- **Encourage Americans from all walks of life to become involved more directly in financially supporting and providing volunteer support for local social service programs that genuinely help the poor.** The American Community Renewal Act encourages private-sector contributions to charities. By offering a tax credit coupled with volunteer requirements, the Community Renewal Plan begins the positive process of enabling the private sector to work with faith-based charities to develop new approaches in the struggle against poverty, drugs, family disintegration, and crime. These programs can work and make a real difference in the lives of young men and women. In this way, the bill encourages Americans to become more involved in their communities and to see which programs are most effective and worthy of support. It is a far greater involvement than just "giving at the office."

The American Community Renewal Act gives Congress an excellent opportunity to make a bipartisan stand for children. Its comprehensive urban policy rejects the premise that America's poorest communities need only larger benefit checks from the government. It goes beyond simply managing the symptoms of impoverishment to tackle the root causes of poverty, crime, and illegitimacy. It establishes the economic conditions by which depressed communities can become safer and more profitable places for work and business. And it harnesses the positive energy of the nation's churches and religious institutions to advance the character and quality of American life. Congress should not pass up this opportunity to promote the moral renewal and economic revitalization of America's most poverty-stricken communities.

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