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Introduction

Good morning everyone. It is a real pleasure to be back in Kansas City. I want to commend the Fannie Mae Corporation, the Mid America Regional Council, the Homebuilders and their partners for organizing and supporting this forum today.

Affordable housing is a tough tough issue. It is an issue that is misunderstood and often maligned. It doesn't receive the kind of national or even local attention that it deserves. It is rarely discussed in a metropolitan context, even though everyone in this room knows that housing markets are metropolitan not local.

And it is not just about shelter or social justice. It is about economic competitiveness. It is about quality neighborhoods. It is about rewarding work and building wealth. And it is about community cohesion and continuity.

Today, I would like to do a few things.

First, I want to discuss two major trends affecting cities and metropolitan areas: the rampant decentralization of economic and residential life, the spreading out of our metropolitan areas; and the rise in housing unaffordability, for the very poor, for the working poor and for moderate and middle income families.

Second, I want to discuss how unbalanced growth and affordable housing challenges are fundamentally linked and why they are so hard to solve.

Finally, I want to discuss ways that this region, these states and the nation can develop policies that address affordable housing challenges as well as facilitate more balanced growth patterns.

Major trends

In describing the major trends affecting our metropolitan areas, let me remind you first of the words of George Bernard Shaw who said that "The sign of a truly educated person is to be deeply moved by statistics."

With that admonition in mind, I want to describe first the large demographic, market and land trends affecting cities and metropolitan areas.

Despite the comeback of many central cities and the renaissance underway in many downtown areas, the decentralization of our economy and residential centers is by far the dominant trend in United States today. In the top 100 metropolitan areas, the rate of population growth for suburbs was twice that of central cities – 17 percent versus 8.8 percent -- from 1990 to 2000.

Yet it is not just "the suburbs" that are growing; outer suburban areas, places that were small towns 15 or 20 years ago, have become the population growth centers in the US.

> This is occurring in places where the city population is growing rapidly; places like Denver and Phoenix.
>
> It is occurring in places where the city population has stabilized; places like Cleveland and Boston and Seattle.
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> It is occurring in places where the city population continues to hemorrhage; places like Baltimore and Philadelphia and St. Louis.

In many respects, the Kansas City metropolis reflects these exurban growth trends. The city of Kansas City, Missouri only grew by 1.5 percent during the 1990s (or by 6400 people); by contrast, its metropolitan area grew by 12 percent and added 193,000 people.

> So the population rebound in Kansas City Missouri represented only 3 percent of the region's total population growth during the 1990s.

So where did population growth occur in this metropolis?

> Well Johnson County, Kansas grew by 27 percent or 96,000 people.
>
> And Clay County grew by 20 percent or 31,000 people.
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> And Cass County grew by almost 29 percent or 18,000 people.
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> And Platte County grew by 27 percent or 16,000 people.

Yet population growth figures only tell part of the story. During the 1990s, suburbs and exurbs did not only grow; they also became socially, racially and ethnically diverse.

> As in earlier decades, suburbs are still the preferred domain of married couples with school-aged children – in the largest metropolitan areas, three quarters of these households live in suburbs. Yet household type, including household types generally associated with cities (e.g., singles coming of age, empty nesters), grew at much faster rate in suburbs. In fact, the 2000 Census showed that, for the first time, the suburbs contained more nonfamilies – people living alone or with nonrelatives – than married couples with children. For example, the 2000 census places the nonfamily share of population in the Kansas City metropolitan areas at 29 percent, compared to 28 percent for married couples with children.

There is also substantial racial and ethnic change that is underway in both our cities and our suburbs.

City growth during the 1990s was fueled by immigration and increases in the foreign born population.

> Hispanic population in cities grew by 43 percent during the decade or 3.8 million people.
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> Asian population in cities grew by 38 percent or 1 million people.
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> Black population grew by 6.4 percent or 700,000 people.
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> And white flight continued during the 1990s despite the touted renewal of our cities. The white population in cities declined by 8.5 percent or 2.3 million people. For the first time in American history, whites are now a minority in the top 100 cities; declining from 52 percent of the population in these places to 44 percent.

Suburbs are also becoming more racially and ethnically diverse.

> In many metropolitan areas, the explosive growth in immigrant populations in the past decade skipped the cities and went directly to the suburbs. Racial and ethnic minorities now make up more than a quarter (27 percent) of suburban populations, up from 19 percent in 1990. Every minority group grew at faster rates in the suburbs during the past decade. 40 percent of black households now live in the suburbs; 50 percent of Hispanic households; 55 percent of Asian households.

As with population decentralization, the Kansas City metro reflects national trends on racial and ethnic change.

> Kansas City, Missouri lost 10 percent of its white population and saw the white share of its population decline to 58 percent.
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> Kansas City, Kansas lost 26 percent of its white population.
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> By contrast, the Hispanic population in Kansas City, Missouri grew by 80 percent during the 1990s. It grew by 130 percent in Kansas City, Kansas and by 156 percent in Johnson County, Kansas.
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> The implications of these changes are profound – for politics, for services, for homebuying and housing.
>
> The bottom line is that “This is no longer your parent’s suburbs”.

As population goes, so do jobs

The suburbs now dominate employment growth and are no longer just bedroom communities for workers commuting to traditional downtowns. Rather, they are now strong employment centers serving a variety of functions in their regional economies. The American economy is rapidly becoming an exit ramp economy, with office, commercial and retail facilities increasingly located along suburban freeways. This is particularly true in leading technology regions like Washington, D.C., Austin and Boston where firms like American Online, Dell and Raytheon have built large exurban campuses far from the city center.

A new spatial geography of work and opportunity has emerged in metro America. Across the largest 100 metro areas, on average, only 22 percent of people work within three miles of the city center. In cities like Chicago, Atlanta and Detroit, employment patterns have radically altered, with more than 60 percent of the regional employment now located more than 10 miles from the city center.

The Kansas City metropolis, again, reflects these larger trends. Only 13 percent of the jobs in this metropolitan area (less than the national average) are located within 3 miles of the central business district. Some 45 percent of the jobs are located more than 10 miles from the CBD.

Kansas City is a very decentralized economy and it is getting worse.

From 1992 to 1998, Kansas City Missouri, had 8.6 percent job growth and gained 24,000 jobs

Kansas City Kansas actually lost a half percent of its job base or about 400 jobs.

The metropolitan area gained 126,000 jobs or by over 18 percent.

Decentralization is occurring for various reasons.

The rise in new households plays an important role, whether its due to population growth or aging of the population or divorce rates or higher incomes.

So does market restructuring as larger companies and even governmental entities increase their outsourcing to smaller firms.

So does consolidation in the retail markets as large national and regional chains increasingly dominate the economy.

Yet this is not just about the market or demographics or some mutant American gene that compels all of us to consume more housing on more land. It is also about rules of the development game, set by federal and state and local governments that tilt the playing field against older communities (cities and older suburbs) and towards newer places.

Decentralization has disparate spatial effects on cities, older suburbs and newer rapidly growing suburbs

Many cities are coming back. Yet they still house a disproportionate number of families with incomes below the poverty line. And the concentration of poor families in distressed neighborhoods (where more than 40% of the residents are poor) is disturbing.

The number of people living in high poverty neighborhoods doubled from 1970 to 1990, from 4.1 million people to 8 million people. Concentrated poverty remains principally a racial phenomenon. If you are white and you are poor, you tend to live dispersed throughout a metropolitan area. But if you are African American and you are poor (and to a lesser extent, if you are Latino and you are poor), you are very likely to live in an urban neighborhood of high poverty.

The costs of concentrated poverty are well documented: failing schools, higher crime, higher incidences of family fragmentation and substance abuse. The high concentration of poverty – in the midst of a decentralizing economy – also means that many cities are facing larger challenges as they struggle to help welfare families make the transition to work. Not surprisingly, urban welfare rolls have not fallen as fast as welfare rolls in general. Welfare is principally becoming an urban problem as the 100 largest cities now contain 60% of the welfare cases in the country.

Yet central cities are not the only places adversely affected by sprawling development patterns. Many older suburban areas – generally built after World War II -- are being left behind as their metropolitan areas spread outward and are beginning to look more and more like central cities. These are the places where school poverty is becoming a problem, where the housing stock is aging, where commercial corridors are struggling, where fiscal capacity is stagnating. And unlike central cities, these places rarely have the waterfront or central business district or distinctive housing stock or civic infrastructure to fuel a renaissance.

Which places we are talking about? Rollin Park.. Gladstone. Raytown. Grandview.

Even the rapidly growing, newer suburbs – the places supposedly "winning" in the new economy -- are experiencing severe challenges as they literally choke on growth. These are the places characterized by clogged roads, overcrowded schools, a rapid loss of open space and a general sense that quality of life is declining. Places like Lees Summit, Olathe, and Platte County.

The spreading out of the metro area affects the travel patterns of households throughout the region. With the metro area spreading out, with low density settlement patterns dominating, with suburbs growing in a disjointed way (where residential areas are separate from office areas which are separate from commercial areas), families are completely dependent on their car.

Not surprisingly, vehicle miles traveled grew more than twice as fast as population. VMT grew by 26 percent in the region compared to the 12 percent population growth.

On average each local resident travels around 29 miles per day in a vehicle, 36 percent more than average for the 68 largest metro areas in the country.

This rapid growth clearly affects the pocket book of most households in the region.

According to one study, spending on transportation actually exceeds spending on housing. The average household in the region spends 18 percent on transportation. That's higher than in Denver and Seattle and St. Louis and Cleveland and Cincinnati.

So sprawl dominates the American and KC economic and physical landscape and ultimately affects a wide cross-section of families living in the nation's metropolitan areas and surrounding jurisdictions.

The second related trend I want to discuss is the decline of housing affordability in metropolitan areas and states throughout the country.

The critical statistics are well documented by HUD and national researchers.

According to a HUD March 2000 report, at least 5.4 million very low income renter families – a record level – have so-called "worst case housing needs," meaning that these families pay over half their income for housing or live in severely inadequate housing. These 5.4 million households represent some 12.3 million people, 1.5 million of whom are elderly and 4.3 million of whom are children.

The number of renter families with worst case needs has gotten worse, not better, during the economic expansion. Since 1991, when the economic expansion began, the number of families with worst case needs rose by 600,000, an increase of 12 percent.

Families with worst case needs are working harder than ever. Over the past decade, growth in worst case needs was fastest among working families with children. One in three families with children with worst case needs have earnings representing full time work at or above the minimum wage.

Housing needs, of course, are not limited to low-income renter families with incomes less than 50% of median income.

According to the National Housing Conference, when you look at both renters and homeowners and when you look at families with incomes up to 120% of median income, families with critical housing needs grow to 13.7 million. That means they spend more than 50% of their income for rent or live in substandard housing.

Here, again, a large and growing portion of this universe are moderate-income working families, particularly those who live in high price rental and homeownership markets. The number of moderate income families with critical housing needs rose 17% between 1995 and 1997 alone.

How does Kansas City stack up?

Kansas City has generally ranked near the top of the nation's affordable housing markets and homeownership has exceeded the national average.

Yet Kansas City's housing market has changed in recent years and housing problems have emerged on several levels.

The HUD fair market rent for a two bedroom apartment in the region is $671. The hourly wage needed to support this rent is close to $13 an hour or more than double the minimum wage.

According to HUD's most recent analysis, some 24,600 households in the area have worst case housing needs which means they pay more than 50 percent of their income for rent. That's 11 percent of all renter households and 40 percent of very low income renters who are eligible for federal housing assistance but don't receive it.

Yet this is not just about low income or moderate income renters.

Since mid 1990s, the metro area has been hit by a wave of higher housing prices. Some zip codes, for example, saw housing prices jump 40 percent in late 90s.

According to the homebuilders association, the average price of a new single family home in the metro area exceeds $225,000. In Platte County, the average price is $268,000. In Johnson County, it rises to $278,000.

At that price, many full time workers in the Kansas City area (including teachers and nurses) simply cannot afford a new home near their place of employment.

Many find that they need to move further and further out to find an affordable home – they need essentially to “drive to qualify”.

Why is this happening? Why does the United States have a persistent, seemingly intractable affordable housing crisis affecting more and more working families, both renters and households? Well it isn’t rocket science.

First, wages and incomes are not keeping pace with the costs of daily living, including transportation, health insurance, child care and, most importantly, housing.

Average monthly rents are rising at twice the overall inflation rate, as measured by the Consumer Price Index. Rent increases exceed inflation in all regions of the country and in all 23 metro areas tracked by the CPI.

Rents are also rising more rapidly than the incomes of many moderate income working families. This is especially true among low-skilled workers in service industries, including cashiers and restaurant workers, whose incomes decreased from 1991 to 1999. But it is also true for workers in critical occupations – like teachers or law enforcement professionals whose wage hikes did not keep pace with inflation.

Very low income renters, particularly those making the transition from welfare to work, have more costs. Often, the transition to work generates new financial pressures and expenses, including the cost of child care and the cost of transportation to and from work.

Second, the supply of affordable rental housing has failed to keep pace with housing demand.

The number of rental units affordable to extremely low income families dropped by 5 percent between 1991 and 1997, a decline of over 370,000 units. The gap between extremely low income families and units they can afford is large and growing. In 1997, for every 100 families with incomes at or below 30 percent of area median income, there were only 36 units both affordable and available to them.

In response to the economic expansion of the last decade, private developers have concentrated production at the high end of the market. Just 6 percent of all new 2BR private market units completed in 1998 had an asking price of less than $450 a month, affordable to families working full time at $9 an hour.

Less than 20 percent had an asking rent of less than $550 a month, a rent affordable to families working full time at less than $11 an hour.

Third, the market is having problems producing single family homes in the $100,000 to $150,000 range – cutting off moderate income workers from homeownership opportunities.

> Some of that reflects unnecessary regulation and redtape, particularly in the central cities.
>
> Some of that reflects the fact that moderate income homebuyers are in a policy blindspot in the country. We have many programs and policies (albeit without sufficient resources) to address the needs of very low and low income families. And our tax code clearly serves the interests of upper middle and high income homeowners. Yet there are relatively few policies that enable the construction of moderate income homes for moderate income homebuyers.

How are these trends related?

Growth patterns are directly related to the location of affordable housing.

> The spatial distribution of affordable housing plays a central role in shaping metropolitan growth patterns. Most metropolitan areas in the United States are sharply divided along geographic lines. Wealth, prosperity and opportunity tend to be located on one side of the line, say North Atlanta or North Chicago or the Western part of the Washington, DC metropolis. Failing schools, distressed communities and poverty concentration tend to be located on the other side, say south Atlanta or the south suburbs in Chicago or the eastern part of Washington, DC.
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> One reason that low income families live bunched together in one part of metropolitan areas is that there is almost no affordable housing elsewhere. Subsidized housing tends to be disproportionately located in distressed inner city and older suburban neighborhoods because wealthier suburbs practice exclusionary zoning and limit affordable housing within their borders.

When the supply of affordable housing is limited in scale and limited in place, several things happen.

> First, many working poor get concentrated in particular parts of a metropolis, usually far from educational and employment opportunities.
>
> Second, the housing/jobs imbalance worsens the areas traffic congestion by forcing families to travel long distances to their place of employment.
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> Third, the housing/jobs imbalance places enormous stresses on the region's employers by limiting the pool of workers who can live within a reasonable commuting distance.

> Fourth, affordable housing concentration forces leapfrog development. Moderate income families usually don't want to live in distressed areas of a region where schools are failing and crime is relatively high. And they can't afford to live in high priced areas, many of which tend to be located in the center portion of the region. So these families are forced to move further out in a great game of leapfrog, which unfortunately characterizes most, if not all, American metropolitan areas.

So the location and supply of affordable housing is inextricably linked to the current growth patterns in metropolitan areas and must be part of the policy conversation if alternative growth patterns are to be pursued.

The Challenges to Affordable Housing

This region, therefore, has two substantial challenges. Yet they are difficult to resolve.

Support for affordable housing faces major hurdles. There are several reasons for this.

> Affordable housing has been demonized in the public mind. It is largely associated with and saddled with a series of negatives – crime, distressed neighborhoods and declining property values. These public images persist even though many empirical studies have refuted these negative claims and even after the federal government has taken major efforts to demolish the most troubled public housing developments and stimulate the development of economically integrated communities.
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> Affordable housing is associated exclusively with the very poor. That means most Americans assume, wrongly, that the issue has nothing to do with them. It also means that the issue has a weak base from which to build majoritarian coalitions that can spur political and policy action. This contrasts sharply with the smart growth issue, which draws a good portion of its political strength from middle class and upper income constituencies in the suburbs.
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> Affordable housing is very expensive, reflecting the simple fact that housing remains the largest single expenditure of the average household in the United States, irrespective of income level. In most places, families spend a lot more on housing than they do on transportation or health care or child care or food. So resolving the housing crisis – whether by narrowing the gap between wages and rents through housing vouchers or by subsidizing the construction or rehabilitation of affordable housing – is going to be costly.
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> Finally, affordable housing is complicated. For the average corporate or political or civic leader, housing programs seem inaccessible and incomprehensible, often described in ways -- "Section 8" or "Section 221(d) (3)" – that make sense only to people and organizations who specialize in HUD programs and policies.

Support for more balanced growth also faces major hurdles, particularly in a metro area like Kansas City.

> In most parts of the country, the smart growth movement is being led by environmentalists and conservationists. Not surprisingly, they are dealing with those issues that are on their front burner – preserving open space, expanding transportation choices, improving air and water quality. Yet these constituencies are weak in the Midwest and Plains States and in Missouri in particular.
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> Americans are schizophrenic about sprawl. Americans, so the joke goes, hate sprawl and density. Yet smart growth, to some extent, means more density in housing and more clustering in office, retail, commercial and residential spaces.
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> And building density requires some major changes in the governmental and private rules that drive residential and commercial real estate development. To make smart growth legal and possible will require changes in zoning rules, in building codes, in financing practices, in permitting processes, and in height limitations. The "devil is in the details" when it comes to making smart growth a reality.

Where Does Kansas City Go From Here?

Kansas City has a dual challenge – to respond to a growing affordable housing challenge and to grow in more balanced ways that improves the attractiveness of the region, supports existing communities and enhances opportunity.

How does Kansas City do that? Lets talk about the housing challenge first.

<u>First, KC needs to expand its understanding of the nature and scope of its housing challenge.</u>

> In Chicago, Philadelphia and other major metropolitan markets, government, philanthropic foundations, nonprofit entities, research institutions are investing substantial resources in answering basic questions about the housing challenge:
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>> Where is affordable housing located in the metro area? For very low income renters? For moderate income renters? For first time home buyers?
>>
>> To what extent is market activity meeting demand for new housing and renovated housing?
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>> To what extent is their a jobs/housing imbalance in this area? Are moderate income workers – teachers, nurses, policemen, hospital workers – locked out of growing employment areas?

I highly recommend that the leaders in this community take a hard look at the kinds of studies being produced in other regions. This is not just an academic exercise; this is an effort to ensure that public, for profit and nonprofit entities have a clear understanding of the extent of the challenge and can respond efficiently and effectively.

There is simply no excuse for a major US metro area not to have this information. In a few months, the 2000 census will provide detailed information on the location and affordability of housing and how housing interplays with commuting, income and other trends. Take advantage of this moment to study the region and then respond in a strategic way.

Second, Kansas City needs to think about affordable housing as a regional challenge.

Housing markets are metropolitan in nature, not parochial.

Yet housing is administered locally and housing plans are prepared locally. The sheer number of plans leads to multiple priorities, redundant efforts and most importantly fragmented funding sources for affordable housing development. We fragment the funding sources, requiring developers to seek multiple funding sources for a single affordable housing development. Our housing programs, in essence, are less than the sum of their parts.

I have argued that metropolitan areas are the logical place to administer many housing programs, particularly programs like vouchers that are geared to the market. That will be tough to achieve.

But what if every city and municipality and county in this region got together and created a regional housing strategy? What if this region created a streamlined system for identifying and accessing resources …a system that meets the market need for certainty and predictability and timeliness? Such actions would be a positive step towards resolving the affordable housing challenge on the metro level.

Third, Missouri, Kansas and jurisdictions in KC need to make efforts to increase the supply of affordable housing in both older communities and new growth areas.

Special efforts should be made to increase the construction and rehabilitation of affordable housing in downtown areas and existing residential communities. Such outcomes won't be achieved without some significant policy reform.

To make it easier to build housing in older communities, local zoning rules for downtown areas – as well as commercial and even industrial areas in cities and older suburbs -- need to be reexamined and revised.

To make it easier to rehabilitate older buildings, state and local building codes need to be changed.

To make it easier to renovate older homes, particularly in the inner suburban areas of the region, the city and counties and the states need to consider special loan funds – like the ones created in Minnesota, Cuyahoga County and Cook County.

To make it easier to increase densities, states should permit – and localities should adopt – programs that allow the transfer of development rights from greenfields to urban communities.

To make it easier to build smaller apartments, the federal and state governments may need to provide greater access to market capital through new credit enhancement vehicles.

New affordable housing, of course, will also need to be built in fast growing areas where jobs are increasingly concentrated. That will require a change in rules. Fast growing counties should consider adopting inclusionary zoning ordinances that require a portion of all major subdivision developments to be affordable to low and moderate income renters.

Excellent examples include ordinances in counties like Montgomery County in Maryland, Fairfax County in Virginia and King County in Washington State.

Kansas and Missouri should also examine where they are allocating the federal low income housing tax credits. Are they allocating the credits to developments in fast growing areas, helping to ease the imbalance between jobs and housing. Or are they continuing to allocate the credits to distressed inner city areas, exacerbating the spatial mismatch.

Fourth, Kansas, Missouri and jurisdictions in KC region need to expand the supply of affordable housing in ways that support economic integration and mixed income communities**.**

As discussed above, the spatial concentration of affordable housing in low-income urban neighborhoods could actually exacerbate sprawling development patterns. Thus, efforts to expand the supply of affordable housing must avoid the concentration of poverty.

At a minimum, that means that states should permit, and localities should adopt, inclusionary zoning ordinances.

Yet it may mean that the critical federal housing programs – HOME, low-income housing tax credits – should be rewritten to promote mixed-income communities in distressed urban neighborhoods.

> And new tools will need to be created to support homebuilding for moderate income families – in all parts of a metropolitan area. To this end, President Bush's low income homeownership tax credit deserves serious consideration.

<u>Fifth, Kansas City needs to change the public's perception of affordable housing.</u>

You need to change the language. You need to change the rhetoric. You need to change the image. You need to change the paradigm.

This cannot be about "those" people living in "those" communities. This needs to be about us, about our parents, about our children, about families and individuals who play a critical role in our communities and deserve an opportunity to afford a home and build wealth.

Can you do this? I think the housing community might take a page from national and state efforts to expand health care, child care, and income supports for working families.

> From 1984 to 1999, there was a quiet revolution in national policy, based on the simple idea that "if you work, you should not be poor". During this period, the annual federal expenditures on low-income families who do not receive welfare assistance grew from $6 billion in 1984 to $52 billion in 1999. That growth represents several things: changes in the Medicaid program, the enactment of the Children's Health Insurance Program ("CHIP") in the late 1990s, reforms in child care programs and, most importantly, the sizable increase in the Earned Income Tax Credit ("EITC") program.

So change in attitudes and policies are possible. It is high time to make affordable housing part of a national working family agenda. For many low and moderate and even middle income folks, housing is the biggest household cost. For these families, affordable housing is as important as health care or child care; in many respects, affordable housing provides the foundation for addressing many of the other challenges faced by struggling families.

<u>Finally, Kansas, Missouri and Kansas City needs to understand that you cannot go it alone. We need to resurrect a national housing policy and KC needs to be part of that effort.</u>

Affordable housing is a national challenge requiring federal investments.

That means that the federal government, first and foremost, needs to close the gap between the incomes of the poor (particularly those who work) and rents in the private market. The Administration's call for increasing the minimum wage and expanding both the earned income tax credit and the number of new housing vouchers is a start.

> Yet, as in health care, we need a national objective, an endgame, that we can all work towards. I believe that anyone who works fulltime should be able to afford

a decent place to live. Why don't we as a nation commit ourselves to providing housing support to all low-income individuals and families who fit this definition within the next seven to ten years?

The federal government also needs to expand the production and preservation of affordable rental housing. The Administration has proposed a 40 percent increase in the low-income housing tax credit, a federal program that has stimulated the creation of over 900,000 units of rental housing since 1986. This program has worked by forging alliances between state and local governments, financial institutions and a network of private and nonprofit builders. The program, even in this fiscal environment, needs to be expanded.

Nic Retsinas of the Harvard Joint Center on Housing and I have also proposed using federal tax incentives to help metropolitan areas capitalize new housing trust funds. These trust funds would enable cities and suburbs to craft joint housing solutions that are tailored to their own metropolitan markets. Allocations could encourage regional cooperation and employer contributions and provide incentives for the removal of regulatory barriers to affordable housing. We estimate that $1.5 billion in federal tax incentives could help create a $10 billion pool of housing trust funds, which could leverage tens of billions more in private sector investment. Then, we can set an ambitious but plausible goal of 2.4 million new affordable rental units over the next decade.

Finally, the federal government needs to grow the ranks of homeowners, particularly among minorities and residents of cities and older suburbs. These families are unaffected by the annual federal tax deductions for middle income homeowners, now costing all of us $73 billion a year. Families of moderate means do not earn enough to itemize their deductions. To make these families homeowners, we should be funding tax credits that go directly to first-time homebuyers or tax benefits that entice developers to construct or renovate affordable homes or lenders to provide second mortgages. These incentives are not "hand-outs"; such incentives would give working families a chance to accumulate wealth and contribute to the stability of neighborhoods. President Bush's low income homeownership tax credit (as well as other tax credit proposals currently under discussion) helps fills this void.

OK, that's the housing challenge.

Now comes the hard part. Can Kansas City grow differently? Can you grow in a way that is not dispersed and decentralized?

Increasingly, I think the real question is can you afford not to. If you look across the country, a growing number of states, regions and localities are working to grow differently. This movement – which goes by names – "smart growth", "livable communities" -- has many supporters:

Central city leaders – corporate, civic, political – who realize they can't go it alone;

Older suburban leaders who realize they're being left behind;

Environmentalists who are connecting sprawling growth patterns to regional declines in air and water quality;

Conservationists who are concerned about diminishing open space;

Preservationists who are concerned about the loss of historic buildings and the undermining of heritage areas;

Leaders in new suburbs, small towns and rural areas who are worried about the threats that sprawl poses to quality of life in their places; and

Business leaders who are concerned about the stresses that sprawling development patterns place on their workforce who, in many places, are forced to live further and further from where they work.

These disparate constituencies are starting to coalesce around an agenda that has three core objectives: curbing sprawl at the periphery; promoting reinvestment in older communities; and promoting a new form of development that is mixed use, transit-oriented and pedestrian friendly.

While the building of new coalitions is taking place at all levels, state governments have become the principal targets of reform for many of these coalitions. This reflects the recognition that states have the most extensive impact on growth trends – in part because of their traditional control over issues like land use, governance, and local taxation and in part because of their increased powers in areas like transportation, workforce, housing and welfare policy due to federal devolution.

As you look across the country, coalitions are beginning to fight at the state, regional and local levels for various policy reforms. They include:

Metropolitan governance on issues like transportation, air quality, workforce, housing and economic development. This reflects the increasing recognition that these issues cross parochial borders and are best governed in a way that reflects market and ecological dynamics. Recent example: Georgia's Regional Transportation Authority, a new metropolitan entity with extensive powers to shape new infrastructure policies and investments.

State **growth management** laws to ensure that growth occurs in an orderly, coherent, sustainable way that reflects the key values and principles of the larger citizenry. This reflects the simple notion that the quality and shape of growth occur by choice rather than chance. Recent example: Pennsylvania's Growing Smarter Law which gives incentives for multi municipal planning.

State and local **land preservation and reclamation** efforts to acquire land threatened by development as well as clean up land in older communities (so called "brownfields") that is underdeveloped due to contamination. Recent example: The Clean Ohio Fund, which provides $400 million in funding for farm preservation and brownfield remediation.

State and metropolitan **transportation reform** to ensure that the allocation of large infrastructure resources for highways, transit, sewers, schools and governmental facilities does not facilitate sprawling development patterns at the expense of older communities. Recent example: Maryland's Smart Growth law which steers road and school monies away from farms and open spaces to "priority funding areas."

State and local efforts to **revitalize downtowns**, preserve town centers, restore dead malls and encourage the renovation of existing buildings. Recent example: New Jersey's "smart codes" that place the renovation of existing buildings on a level playing field with new construction.

These policy reforms, of course, only represent the tip of the iceberg when it comes to balanced growth. Localities in many states are demanding that they be given the appropriate tools and powers to grow smarter. In North Carolina, Virginia and other states, localities are asking for a smart growth "toolbox" that would include the powers to carry out transit oriented development, inclusionary zoning, transfer of development rights and other alternative development strategies.

These efforts are often seen as incompatible with affordable housing. But the evidence shows that it is our existing land rules – exclusionary zoning – that create the greatest problem for affordable housing. Balanced growth and affordable housing, particularly in highly decentralized metro areas – can go hand in hand.

Conclusion

Kansas City has an incredible opportunity to affects its destiny.

This is a great place to live and work and raise children. It is a place with enormous assets.

It can become one of the leading cities and metropolitan areas of the next century.

But you need to deal with some critical issues – housing affordability and balanced growth among them – if you are going to get there.

If you are going to make progress on these issues, you desperately need to define them in new terms that appeals to a broad based citizenry.

You also need to build new kinds of coalitions – at the local level where zoning and land use decisions are made – but also at the metropolitan level where the market operates.

You need to build new kinds of coalitions that cross borders (both local and state), that unite constituencies (homebuilders and neighborhood advocates) and transcend racial and ethnic divisions.

These are issues worth fighting for and worth fighting about.

I wish you well.