

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

COMMUNITY PLANNING AND DEVELOPMENT

EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES

PROGRAM HIGHLIGHTS

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004	INCREASE + DECREASE - 2004 vs 2003
(Dollars in Thousands)				
<u>Program Level:</u>				
Obligations	\$42,000 _{a/}	\$3,214	...	-\$3,214
<u>Appropriations:</u>				
Enacted or Proposed	45,000 _{a/}
Budget Outlays	57,291 _{a/}	75,000	70,000	-5,000

a/ Fiscal year 2002 funded grants to Round II EZ's.

SUMMARY OF BUDGET ESTIMATES

As in 2003, no grant funding is proposed for Empowerment Zones (EZ) or Enterprise Communities (ECs) in fiscal year 2004. Empowerment Zones will continue to use tax incentive, as is the case for Renewal Communities (RCs) to foster community and economic development.

No new grant funding is proposed because the EZ program has not been deemed to be sufficiently effective. Both the Department and Congress recognized slower than projected spendout in the program, and efforts have been underway to make improvements. In addition, an intermediate evaluation of EZs by the Urban Institute reflected mixed results and even in the crucial area of job creation, the results, though positive, were mixed.

EXPLANATION OF INCREASES AND DECREASES

Outlays decrease \$5 million as dwindling obligated balances are spent out.

PROGRAM DESCRIPTION AND ACTIVITY

1. Legislative Authority. The 2000 Community Tax Relief Act authorized the designation of 40 renewal communities (28 urban, 12 rural) and 9 Round III Empowerment Zones (7 urban, 2 rural), which utilize tax incentive provisions to encourage community revitalization efforts. The Omnibus Budget Reconciliation Act of 1993 authorized the Secretary of HUD to designate 6 urban EZs and 65 urban Round I Enterprise Communities (ECs). The Taxpayer Relief Act of 1997 later authorized two additional Round I urban EZs. This Act also authorized the Secretary to designate 15 Round II urban EZs.

2. Program Area Organization. The goal of the Empowerment Zones (EZs)/Enterprise Communities (ECs)/ Renewal Communities (RCs) program is to create sustainable, long-term economic development in distressed areas by using a strategic plan (for EZs/ECs) or Course of Action (for RCs) and economic growth promotion requirements developed and implemented in partnerships among private, public, and nonprofit entities. Residents, not Federal officials in Washington, provide input into what happens in their neighborhoods. Each community develops quantifiable goals and ways to measure the results of implementation.

RENEWAL COMMUNITIES

RC designees foster efforts to encourage economic development through the use of Federal tax incentives. Also, RC designees must garner the support of State and local groups for four of six required goals and actions. These include the following:

- reducing tax rates or fees;
- increasing the efficiency of local services;
- supporting efforts to reduce crime;
- streamlining government requirements;
- involving local partners; and

- soliciting in kind contributions.

Within 6 months of designation, Coordinating Responsible Authorities (CoRAs) are required by 24 CFR 599.507 to submit Tax Incentives Utilization Plans (TIUP) that will expand upon their Course of Action submitted at the time of application and detail their use of RC tax incentives and progress towards State and local commitments, including certifications to implement economic growth promotion requirements. These requirements include repealing, reducing or agreeing not to enforce certain licensing requirements, zoning restrictions, permits for street vendors or restrictions on competition.

HUD provided technical assistance to help designees develop their TIUPs because recent evaluations of Round I EZs suggest that tax incentives need more marketing and planning in order to enhance utilization to insure economic development outcomes. Tax incentives are not widely used or understood, and business owners as well as some accountants need specific training to ensure that they are appropriately and effectively implemented. Capacity building is crucial to make these incentives work, especially the employment credits used to encourage the hiring of RC/EZ/EC residents and the welfare-to-work tax credit. Final TIUPs were due December 31, 2002.

The IRS also provides technical assistance by providing the IRS Help Line, producing Publication 954 "Tax Incentives for Empowerment Zones and Other Distressed Communities", and responding to private letter rulings and other citizen inquiries. They have also been participating in HUD's national and local workshops that provide information on how to use the incentives. The IRS consults with HUD on tax incentive questions and is collaborating on HUD publications.

HUD sponsored a Community Renewal Implementation conference in May 2002 that provided technical assistance to all EZ and RC designees. The focus of the conference was on marketing the tax incentives and included participation from the IRS, USDA, DOL, Commerce, CDFI and the private sector. The conference also included sessions on best practices, performance measurement and reporting requirements.

Tax Incentives. The RC Initiative uses tax incentives and a set of State and local commitments to attract businesses to many of the most distressed areas of a community. The EZ Initiative uses tax incentives and, for Rounds I and II, Federal seed money to provide designees with financial assistance for revitalization efforts. Tax incentives for both the RC and EZ Initiatives available include:

- Employment Credits for people who live and work in their RC or EZ;
- Work Opportunity Tax Credit for businesses that hire 18- to 24-year old EZ/EC/RC residents and other hard to employ groups;
- Increased Section 179 Deduction for depreciation expenses; and
- Qualified Zone Academy Bonds (QZABS), which enable State and local governments to issue bonds that permit public schools to raise funds for curriculum development or physical improvements.
- Incentives only available to Empowerment Zones include the following:
 - Enterprise Zone Facility Bonds, which are tax exempt up to a certain ceiling;
 - Nonrecognition of Gain on Sale of EZ Assets;
 - Partial Recognition of Gain on Sale of EZ Stock;
 - Commercial revitalization deduction, which allows for either one-half of a qualified revitalization expenditure (QRE) in the first year a building is placed in service or all QREs on a ratable basis over 10 years if QREs have been allocated to revitalization of a commercial building located in an RC designated area; and
 - Zero Percent Capital Gains Rate for the sale or transfer of RC Assets.

EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

Launched in 1993, the EZ/EC Initiative was an interagency effort focused on the creation of self-sustaining, long-term development in distressed urban and rural areas throughout the nation. While Rounds I and II Empowerment Zones utilize both grant funding and tax incentives, Round III Empowerment Zones solely utilize tax incentives.

HUD announced eight Round III Empowerment Zones effective January 1, 2002. HUD has not requested discretionary funding for these designations, but they have already received the full EZ tax incentive package and bonus points for HUD competitive grant programs. Round III EZs will undertake projects and programs using leveraged funding and tax incentives. HUD is still charged with measuring the performance of these designated communities.

The conceptual framework of the EZ/EC program is embodied in four key principles:

- The Strategic Vision for Change identifies what a community will become in the future and includes a clear statement of the values that the community used to create its vision.
- Community-Based Partnerships emphasize the importance of involving all community stakeholders in the revitalization of distressed neighborhoods. Key partners should be included in the governance structure, and all partners should be held accountable for their commitment to revitalizing the community.
- Economic Opportunity includes creating jobs for Zone residents and linking residents to jobs within the Zone and throughout the region.
- Sustainable Community Development advances the creation of livable and vibrant communities through physical, environmental, community, and human development.

These principles are drawn from best practices of holistic approaches to community revitalization. Applicants address these principles in their Strategic Plans.

Progress for any EZ/EC is measured by the progress that the community makes in implementing its Strategic Plan. A wide range of indicators has been developed, based on three of the four core principles, against which EZ/ECs report specific activities. (There are no specific indicators for the Strategic Vision for Change goal.) Under Community-Based Partnerships, communities report on governance and capacity building activities; under Economic Opportunity, communities report on workforce development, business assistance and capital and credit access activities; and under Sustainable Community Development, communities report on housing, public safety and crime prevention, infrastructure, environment, health, education, human services and family support, and other similar activities. The Performance Measurement System (PERMS), a computerized system implemented in late 1998, is used to collect this data.

- a. Eligible Recipients. Round III Empowerment Zones and Renewal Communities will benefit from tax incentives by implementing their Tax Incentive Utilization Plans. Technical assistance and capacity building dollars are needed to assist in these efforts.
- b. Allocation of Funds. Capacity building/technical assistance enables Renewal Communities and Round III Empowerment Zones to implement their Tax Incentives Utilization Plans and market tax incentives. Congress has not authorized grant funds for the Round III EZs or the Renewal Communities.
- c. Eligible Activities. The Renewal Community (RC) Rule published on April 1, 2002 states that HUD will provide technical assistance and capacity building to the designated RCs (24 CFR 599.507(e)). The proposed technical assistance includes capacity building for Renewal Community and Round III Empowerment Zone designees to help them implement their Tax Incentives Utilization Plan, establish their coordinating responsible authority, market tax incentives, and meet related program requirements.
- d. Program Accomplishments. The following list of reported accomplishments provides a national snapshot of the cumulative successes of the Urban EZ/EC Initiative as reported by the EZ/ECs in HUD's Internet-based EZ/EC Performance Measurement System (PERMS).
 - **Projects and Programs:** The EZ/ECs report that over 2,800 neighborhood-based projects and programs have been developed and are underway as a result of each EZ/ECs' Strategic Plan. One billion dollars in Federal EZ/EC seed money has leveraged over \$13 billion in additional public and private sector investments.
 - **Private Sector Involvement:** Well-known companies involved in the Zones include General Motors, Ford, Chrysler, Home Depot, The Walt Disney Company, GAP, Ameritech, Rite Aid, Microsoft, Starbucks, MCI/Worldcom, IBM, Amazon.com, and hundreds of others.
 - **Workforce Development:** The EZ/ECs report more than 1,300 job training programs with over 122,000 Zone residents having received job training. Over 46,000 Zone residents have been placed in jobs as a result of these job training programs. Zone residents have attended approximately 461 job fairs resulting in over 11,000 job placements.
 - **Access to Capital:** As a result of the EZ/EC Initiative, access to cheap sources of capital has greatly improved. Loan pools totaling \$2 billion have been created with approximately 17,000 loans processed and over 15,000 jobs created from those loans. In total, the EZ/ECs report that almost 51,000 businesses have received financial assistance and almost 18,000 have received technical assistance to improve

operations. Over 44,000 jobs have been created or retained as a result of this assistance.

- **Housing:** The EZ/ECs report that they have completed approximately 11,000 new housing units and have rehabilitated another 21,000. Over 50,000 homeless people have been served under the various homeless housing and social service programs. The EZ/ECs serve almost 38,000 residents through 389 homeownership programs.
- **Environment:** The EZ/ECs report that they are engaged in many Brownfields projects - transforming abandoned and contaminated commercial and industrial sites into clean, reusable parcels of land for development. EZ/EC's have remediated over 390 brownfield sites to date. The EZ/EC's are also involved in approximately 370 beautification programs.
- **Public Safety:** The EZ/ECs report that approximately 750,000 people have been served by 455 public safety programs operating in the EZ/ECs. There are also over 526 crime prevention programs which have served approximately 820,000 residents.
- **Health Care:** There are over 975 health-related programs in the EZ/ECs serving approximately 727,000 residents. Forty new health-care facilities have opened in the EZ/EC neighborhoods and 10 have been remodeled, providing expanded service to greater numbers of families.
- **Human Services:** Within the EZ/EC communities, there are:
 - Over 620 child care programs serving over 39,000 Zone families;
 - Over 360 elderly programs serving over 51,000 Zone residents;
 - Over 920 youth programs serving almost 269,000 Zone youth; and
 - Over 190 recreation/arts programs serving over 479,000 Zone residents.
- **Education:** Education is vital to the well-being and economic development of the EZ/EC's. The following are educational successes:
 - Almost 25,000 children have been served by almost 200 head-start/pre-school programs;
 - Almost 160,000 EZ/EC residents have been served by 300 K-12 education programs;
 - Over 7,600 residents have been served by 61 post-secondary assistance programs; and
 - Over 5,400 residents have been served by 150 vocational education and GED programs.

Three sample case studies of successes include the following:

- In January 2002, the Minneapolis Empowerment Zone opened a commercial retail incubator in an abandoned warehouse. Existing tenants include Maria's Cafe, a minority owned business that features a fusion of organic, Mexican and American specialties. The incubator also includes a Laundromat and public safety center. Two police officers staff the center, which offers bicycle repair job training that juveniles can elect to participate in lieu of adjudication. Although most funds are leveraged, HUD EZ funds are being used for purchase of equipment. The incubator combines business assistance, job creation, training and public safety under one roof.
- In November 2001, Kinetic Park, a project of the Huntington, WV-Ironton, OH Round II EZ, launched its promotional website at www.kinetic-park.com. Amazon.com will be the anchor tenant for the new business park to be joined by a research facility for the American Foundation for the Blind. Amazon.com was attracted to the EZ for various reasons; the availability of labor and a pre-planned site helped the partners form their proposal. Economic incentives (such as wage credits and tax-exempt bonds) available in the EZ also were crucial factors in the bid's success. Employing as many as 347 full-time workers, Amazon.com's first customer service center on the East Coast responds to a growing global customer base.
- In Philadelphia, Pennsylvania, three acres at the center of the American Street corridor have been cleaned up and redeveloped to become the new home of Asia Foods, the second largest distributor of Asians foods in the mid-Atlantic. This Round I EZ helped to secure \$900,000 in State funds and the city provided \$300,000 to remediate the contaminated site. Drug addicts were moved out of an abandoned office building, and above and below ground storage tanks were removed. Construction of the new warehouse began in December 1998 and the 60,000 square foot distribution center was dedicated on March 23, 1999. The EZ provided \$500,000 for construction of the new

facility in addition to more than \$1 million from the City's development authority. The principal owners of Asia Foods have added 24 people from the EZ to their staff of 46. They are partnering with other companies in the EZ and envision Phase II, a plan to bring in 6 to 8 small distributors of fresh produce, fish, and other foods to complement their current enterprise.

As of January 2003, the Round II Empowerment Zones have collectively expended approximately 35 percent (\$155 million) of the \$330 million in HUD grant funds appropriated through fiscal year 2002. In March 2002, each Round II EZ identified contracts to subgrantees and funds otherwise committed. With 13 of 15 EZs reporting, 42 percent of the \$284 million is under contract to a third party and 82 percent has otherwise been formally committed to projects and programs through board approval. This increase in spending may be attributed to the Department's attention to spend out rates while communicating with grantees. As a result of increased interest by Congress and the Department in the amount of award under contract to third party, the RC/EZ/EC Performance Measurement Systems (PERMS) has been modified to include this as a performance indicator. HUD will continue to work to build on last year's success in budgeting to projects and programs, subcontracting and completing projects.

Furthermore, research has shown the program's performance as documented in HUD's *Interim Assessment of the Empowerment Zones and Enterprise Communities (EZ/EC) Program* (November 2001). This report looks at a sample of Round I EZ/ECs to determine the impact of the program. The researchers found that there is a modest, though statistically significant impact in the economic well-being of the Round I EZ/ECs, particularly in regard to employment. For example, for the sampled EZ/ECs, four of the 6 zones showed increases in the employment rate from 1995 to 2000 for an overall growth rate of 16 percent. The comparison areas, on the other hand, only experienced a 7 percent growth rate during that time. The Round I EZs outpaced similar areas by 9 percent.

Other findings of the study were that the number of EZ residents employed in EZ businesses has increased, creating spaces for people to live and work in their own neighborhoods. Next, the number of EZ resident-owned businesses increased over 150 percent, and the percentage of minority-owned businesses increased from 38 percent in 1997 to 48 percent in 2000. Statistical analysis shows that these businesses were more likely to employ EZ residents. In summary, independent evaluators have verified that the Empowerment Zones/Enterprise Communities program has contributed to HUD's Strategic Goal C: Strengthen Communities.

HUD's Office of the Inspector General has completed four of seven audits of Round II Empowerment Zones and posted them on its website. The completed audits did not find any evidence of criminal waste, fraud or abuse, but did cite some inaccurate reporting and the need for improved management controls including monitoring, documentation of procedures, and supporting costs. The audited EZs have begun taking corrective action that addresses these needs.

Status of Funds

a. Unobligated Balances. This table compares obligations with funds available by year.

	<u>ACTUAL</u> <u>2002*</u>	<u>ESTIMATE</u> <u>2003</u>	<u>ESTIMATE</u> <u>2004</u>
	(Dollars in Thousands)		
Unobligated balance, start of year . . .	\$214	\$3,214	...
Appropriation:			
Grants	45,000
Total Available	45,214	<u>3,214</u>	...
Obligations	-42,000	-3,214	...
Unobligated balance, end of year . . .	3,214

Empowerment Zones/Enterprise Communities/Renewal Communities

b. Obligated Balances. The status of obligated balances is as follows:

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
	(Dollars in Thousands)		
Obligated balance, start of year	\$246,457	\$231,166	159,380
Obligations incurred	42,000	3,214	. . .
Subtotal	288,457	234,380	159,380
Outlays (Gross)	-57,291	-75,000	-70,000
Obligated balance, end of year	231,166	159,380	89,380

* Reflects fiscal year 2002 grant funding for Round II EZs.

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
FTE			
Headquarters	11	12	12
Field	1	1	1
Total FTE	12	13	13
S&E Cost (Dollars in Thousands)			
Personal Services	\$1,134	\$1,272	\$1,287
Travel	12	12	12
Printing	9	6	7
Other Services	35	36	46
Supplies	1	1	1
Total S&E Cost	\$1,191	\$1,327	\$1,353