

COMMUNITY PLANNING AND DEVELOPMENT
 EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
 2005 Summary Statement and Initiatives
 (Dollars in Thousands)

EMPOWERMENT ZONES	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>Obligations</u>	<u>Outlays</u>
2003 Appropriation	\$30,000	\$3,214	-\$195	\$33,019	\$32,855	\$59,641
2004 Appropriation/Request	15,000	164	-88	15,076	15,076	70,000
2005 Request	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>65,000</u>
Program Improvements/Offsets	-15,000	-164	88	-15,076	-15,076	-5,000

Summary Statement

No grant funding is proposed for Empowerment Zones (EZ) or Enterprise Communities (ECs) in fiscal year 2005. Round II Empowerment Zones have significant unexpended balances that remain available for program activities. An intermediate evaluation of EZs by the Urban Institute reflected positive, yet mixed results, even in the crucial area of job creation. Round II Empowerment Zones are expected to maximize the utilization of available significant tax incentives in a parallel fashion to Round III EZs and Renewal Communities (RCs), both of which rely exclusively on tax incentives.

STATUS OF ROUND II EZ GRANTEE ACTIVITY

Grantee	<u>Obligated</u>	<u>Disbursed</u>	<u>Balance</u>
Boston	23,959,866.00	12,844,230.00	11,115,636.00
Cincinnati	23,959,866.00	12,559,491.77	11,400,374.23
Columbia	23,959,866.00	12,941,322.78	11,018,543.22
Columbus	23,959,867.00	12,695,356.62	11,264,510.38
Cumberland City	23,959,867.00	13,860,759.48	10,099,107.52
El Paso	23,959,867.00	7,716,503.94	16,243,363.06
Gary/Hammond	23,959,867.00	9,360,194.38	14,599,672.62
Huntington/Ironton	23,959,867.00	13,792,020.86	10,167,846.14
Knoxville	23,959,867.00	4,730,339.90	19,229,527.10
Miami	23,959,867.00	7,248,110.00	16,711,757.00
Minneapolis	23,959,866.00	10,362,459.53	13,597,406.47
New Haven	23,959,867.00	8,821,033.44	15,138,833.56
Norfolk	23,959,866.00	18,598,634.21	5,361,231.79
Santa Ana	23,959,867.00	11,065,013.87	12,894,853.13
St. Louis	23,959,867.00	11,338,636.00	12,621,231.00
TOTAL	359,398,000.00	167,934,106.78	191,463,893.22
%Disbursed of Total		47%	

Empowerment Zones/Enterprise Communities/Renewal Communities

COMMUNITY PLANNING AND DEVELOPMENT
 EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
 Summary of Resources by Program
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2003 Budget Authority</u>	<u>2002 Carryover Into 2003</u>	<u>2003 Total Resources</u>	<u>2003 Obligations</u>	<u>2004 Budget Authority/ Request</u>	<u>2003 Carryover Into 2004</u>	<u>2004 Total Resources</u>	<u>2005 Request</u>
Empowerment Zones/ Enterprise Community/ Renewal Communities ..	\$29,805	\$3,214	\$33,019	\$32,855	\$14,912	\$164	\$15,076	...
Total Empowerment Zones	29,805	3,214	33,019	32,855	14,912	164	15,076	...
FTE								
Headquarters			12				9	9
Field			<u>1</u>				<u>1</u>	...
Total			13				10	9

**COMMUNITY PLANNING AND DEVELOPMENT
EMPOWERMENT ZONES
Program Offsets
(Dollars in Thousands)**

Empowerment Zones/ Enterprise Community/ Renewal Communities	<u>Amount</u>
2003 Appropriation	\$29,805
2004 Appropriation/Request	14,912
2005 Request	<u>...</u>
Program Improvements/Offsets	-14,912

Proposed Actions

No grant funding is proposed for Empowerment Zones (EZ) or Enterprise Communities (ECs) in fiscal year 2005.

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.

The goal of the Office of Community Renewal, which administers the Renewal Communities (RCs), Empowerment Zones (EZs), and Enterprise Communities (ECs) programs, is to create sustainable, long-term economic development in distressed areas by using a "Course of Action" economic growth promotion requirements (for RCs) or strategic plan (for EZs/ECs) 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. Although the largest projected Federal benefit is tax incentives through the IRS, HUD is responsible for measuring performance of the communities.

RENEWAL COMMUNITIES

The 2000 Community Renewal Tax Relief Act established the Renewal Community Initiative that will encourage public-private collaboration to generate economic development in these distressed communities. The 40 Renewal Communities (RCs) receive regulatory relief and tax breaks to help local businesses provide more jobs and promote community revitalization. To assist RCs and ECs in effective application of tax breaks, three "Take **Tax Incentives**" workshops were held during Spring 2003 in the Jacksonville, FL EZ, Memphis, TN RC and the Tucson, AZ EZ. Assistant Secretary Bernardi gave opening remarks at each conference, which also featured a senior White House official who explained the impact of the President's tax cut program on RCs and EZs. For example, the 179 depreciation expense deduction for all small businesses increased to \$75,000, and qualifying EZ/RC businesses still get an additional \$35,000 in deductions. HUD staff trained local government professionals how to use Dunn and Bradstreet data to market tax incentives and estimate utilization. In Winter 2003, HUD had purchased Dunn and Bradstreet business contact information for each RC and EZ. HUD also published *Tax Incentives + Businesses = Jobs: A Marketing Primer on How to Entice Businesses to Renewal Communities, Empowerment Zones & Enterprise Communities.*"

Public Law 106-554 directed that a seven member Advisory Council on Community Renewal be appointed to advise the Secretary of HUD on the renewal of distressed communities. This council is chaired by Robert Woodson of the National Center for Neighborhood Enterprise. The Council held a public hearing in Memphis during HUD's spring 2003 workshops. The Council will advise the Secretary on ways to market, evaluate and improve the Community Renewal programs.

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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.

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. In summer of 2003, the IRS published guidance to the states on how to allocate the Commercial Revitalization Deduction and will update the 954 in January 2004.

HUD kicked off the Community Renewal incentives in May 2002 with a technical assistance workshop for 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. 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. All RCs have filed Tax Incentive Utilization Plans (TIUPs) with HUD and will report their progress towards TIUP goals this winter through OCR's Performance Measurement System (PERMS).

Tax Incentives. The RCs use tax incentives and a set of State and local commitments to attract businesses to many of the most distressed areas of a community. The EZs use tax incentives to help achieve strategic plan goals. Tax incentives for both RCs and EZs 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.

Tax incentives only available to EZs include the following:

- Enterprise Zone Facility Bonds, which are tax exempt up to a certain ceiling;
- Nonrecognition of Gain on Sale of EZ Assets; and
- Partial Recognition of Gain on Sale of EZ Stock.

Tax incentives only available in RCs include the following:

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- 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.

Three sample case studies of successes using tax incentives include the following:

- The Central Mississippi Renewal Community includes 13 counties and 30 municipalities. It has 173,000 residents, 7,000 businesses and 650 certified public accountants (CPAs). The RC held 13 public meetings and sent 700 memoranda to tax preparers, who were the best resource for tax incentive promotion because one memorandum can reach all of their clients. This tax incentive utilization success story involved a catfish manufacturer with 160 employees. He saved \$250,000 in wage credits and was able to pass savings through to employees and hire additional employees to expand his business. The RC benefits also assisted Nissan of America in 2002. This year Nissan will use the Commercial Revitalization Deduction to add a second line with 1000 employees. It brings the new job total to 4,500 as of June 2003.
- Kimberly Clark, a Fortune 100 company, had an effective tax rate higher than competitors in 1994, so they invested in Low-Income Housing Tax Credit (LIHTC) and Historic Tax Credit projects to better utilize existing advantageous tax credits. In 1998, they took their first step into the hotel business with the St. Louis Empowerment Zone project, which used \$95 million in EZ bonds to renovate the historic Lennox Hotel, which opened in 2002. Marriott Renaissance Grand operates the hotel with 750 employees. About 35 percent of them are EZ/EC residents. Kimberly Clark will soon develop the Book Cadillac Hotel using \$52 million of Detroit's EZ bonds. There will be 450 rooms and 83 condominiums on the upper floors built with the LIHTC. Finally, San Antonio may issue \$30 million in EZ bonds for another Kimberly Clark hotel project.
- In Memphis, TN, several businesses and resident employees are poised to take advantage of the tax incentives. In August 2003, First Alliance Bank (FAB) will finish a freestanding branch downtown in the underserved RC. FAB will receive \$35,000 in Federal tax credits each year of the RC and will start looking for another branch office in the RC. T.W.J Packaging, a recycler of industrial products that cleans out used bulk bags for reuse as dust collection bags for auto manufacturers, has a 12,000 sq. ft. facility across from Lamar Terrace public housing. Ten employees live in the RC and saved the company \$14,000 in Federal wage credits. The incentives helped retain good employees. Finally, Global Intermodal Systems, a container shipping company, saved \$75,000 using the wage credit and hopes the program will get extended past 2009.

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 Round 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. Round II Empowerment Zones have already received the full EZ tax incentive package. In addition, bonus points for HUD competitive grant programs are awarded when proposed activities are to take place in EZs. Round III EZs will undertake projects and programs using leveraged funding and tax incentives. HUD is responsible for measuring the performance of these designated communities.

As of January 2004, the Round II Empowerment Zones have collectively expended approximately 47 percent (\$168 million) of the \$360 million in HUD grant funds appropriated through fiscal year 2003. Each Round II EZ identified contracts to subgrantees and funds otherwise committed. With all 15 Round II EZs reporting, 32 percent of the \$360 million is under contract to a third party and 70 percent has otherwise been formally committed to projects and programs through board approval. As a result of increased interest by Congress and the Department in the amount of awards under contract to third parties, 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

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budgeting to projects and programs, subcontracting and completing projects. It should also be noted that per PERMS reports, the EZ/EC projects met only one of seven self-assessed targets in fiscal year 2003, established to measure performance.

HUD's Office of the Inspector General has completed six of seven audits of Round II Empowerment Zones and posted them on its website. The completed audits cited ineligible costs, inaccurate reporting and the need for improved management controls including monitoring, documentation of procedures, and supporting costs. HUD has issued management decisions in five of the six audits and will follow up with EZs who are taking corrective action.

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. Recent modifications include distinguishing between resident and non-resident beneficiaries, outcome measures related to tax incentive utilization and the ability of the grantee to generate summary reports of their activities.

Program Performance and Accomplishments. Cumulative performance of the Urban EZ/EC Initiative is diverse and far-reaching. Over 3,487 neighborhood-based projects and programs have been developed and are underway as a result of each EZ/ECs' Strategic Plan. \$1.3 billion in Federal seed money and tax incentives has leveraged over \$16.8 billion in additional public and private sector investments. Over 53,043 Zone residents have been placed in jobs as a result of job training programs. Zone residents have attended approximately 503 job fairs resulting in over 11,673 job placements. Well-known companies involved in the Zones include General Motors, Kimberly Clark, Ford, Chrysler, Home Depot, The Walt Disney Company, GAP, Ameritech, Rite Aid, Microsoft, Starbucks, MCI/Worldcom, IBM, Amazon.com, and hundreds of others.

As a result of the EZ/EC Initiative, access to cheap sources of capital has greatly improved. Loan pools totaling \$2.1 billion have been created with 17,910 loans processed and over 16,697 jobs created from those loans. In total, the EZ/ECs report that 69,558 businesses have received financial assistance and almost 18,569 have received technical assistance to improve operations. Over 48,693 jobs have been created or retained as a result of this assistance.

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The EZ/ECs report that they have completed approximately 8,917 new housing units and have rehabilitated another 24,426. Almost 50,000 homeless people have been served under the various homeless housing and social service programs. The EZ/ECs serve almost 37,000 residents through 406 homeownership programs.

Approximately 750,000 people have been served by 455 public safety programs operating in the EZ/ECs. There are also over 540 crime prevention programs which have served approximately 800,000 residents. There are over 1,853 health-related programs in the EZ/ECs serving approximately 600,000 residents. Forty new health-care facilities have opened in the EZ/EC neighborhoods and 12 have been remodeled, providing expanded service to greater numbers of families.

Within the EZ/EC communities, there are child care programs serving over 45,631 Zone families; elderly programs serving over 51,791 Zone residents; youth programs serving almost 293,253 Zone youth; and recreation/arts programs serving 277,272 Zone residents.

Almost 25,000 children have been served by almost 200 head-start/pre-school programs in EZ/ECs; 176,844 EZ/EC residents have been served by K-12 education programs; 7,203 residents have been served by post-secondary assistance programs; and 5,042 residents have been served by vocational education and GED programs.

**COMMUNITY PLANNING AND DEVELOPMENT
EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
Performance Measurement Table**

<u>Empowerment zones/enterprise communities/renewal communities</u>					
Program Mission: 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.					
Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2003 Plan	2003 Actual	2004 Enacted	2005 Plan
Cumulative homeless assistance	PERMS	90% of target goal	89% target of goal	51,000 cumulative; 2,000 annual	53,000 cumulative; 3,088 annual
Cumulative gainful employment	PERMS	75% of target goal	76% target of goal	188,902 cumulative; 18,843 annual	207,745 cumulative; 11,607 annual
Cumulative Public Safety	PERMS	85% of target goal	90% target of goal	1,610,000	Discontinued
New Affordable Housing Completed	PERMS	90% of target goal	83% target of goal	Consolidated with Rehab. Housing	Consolidated with Rehab. Housing
Rehabilitated Affordable Housing Completed	PERMS	87% of target goal	64% of target goal	Consolidated with New Housing	Consolidated with New Housing
Cumulative new or rehabilitated units	PERMS	87% of target goal	64% of target goal	33,360 cumulative; 2,513 annual	35,872 cumulative; 2,731 annual
Residents Receiving Homeownership Assistance	PERMS	90% of target goal	91% of target goal	Discontinued	Discontinued
Residents Served By Social Service Programs	PERMS	87% of target goal	74% of target goal	Discontinued	Discontinued

Explanation of Indicators

Fiscal year 2003 indicators represent percentages of individual Empowerment Zone target goals. Fiscal years 2004 and 2005 indicators are annual. CPD sets targets using a regression analysis of past performance.

Empowerment Zones/Enterprise Communities/Renewal Communities

COMMUNITY PLANNING AND DEVELOPMENT
EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
Justification of Proposed Changes in Appropriations Language

The 2005 President's Budget includes proposed changes in the appropriations language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

[For grants in connection with a second round of empowerment zones and enterprise communities, \$15,000,000, to remain available until September 30, 2005, for 'Urban Empowerment Zones' as authorized in section 1391(G) of the Internal Revenue Code of 1986 (26 U.S.C.(G) including \$1,000,000 for each empowerment zones for use in conjunction with economic development activities consistent with the strategic plan of each empowerment zone.]

Explanation of Changes

Deletes language providing funding.

Empowerment Zones/Enterprise Communities/Renewal Communities

COMMUNITY PLANNING AND DEVELOPMENT
 EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
 Crosswalk of 2003 Availability
 (Dollars in Thousands)

<u>Budget Authority</u>	<u>2003 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2003 Resources</u>
Empowerment Zones/ Enterprise Community/ Renewal Communities	\$30,000	-\$195	\$3,214	\$33,019
Total	30,000	-195	3,214	33,019

Empowerment Zones/Enterprise Communities/Renewal Communities

COMMUNITY PLANNING AND DEVELOPMENT
 ENPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
 Crosswalk of 2004 Changes
 (Dollars in Thousands)

<u>Budget Authority</u>	<u>2004 President's Budget Request</u>	<u>Congressional Appropriations Action on 2004 Request</u>	<u>2004 Supplemental/ Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2004 Resources</u>
Empowerment Zones/ Enterprise Community/ Renewal Communities	\$15,000	-\$88	...	\$164	\$15,076
Total Changes	15,000	-88	...	164	15,076