

**COMMUNITY PLANNING AND DEVELOPMENT
EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
2006 Summary Statement and Initiatives
(Dollars in Thousands)**

EMPOWERMENT ZONES	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2004 Appropriation	\$15,000	\$164	-\$88	\$15,076	\$14,912	\$48,284
2005 Appropriation	10,000	299 ^a	-80	10,219	10,219	50,000
2006 Request .....	...	...	...	...	...	50,000
Program Improvements/Offsets	-10,000	-299	+80	-10,219	-10,219	...

a/ Fiscal year 2005 carryover includes \$135 thousand of recaptures during 2004.

Summary Statement

No new funding is proposed for Empowerment Zones (EZs) or Enterprise Communities (ECs) in fiscal year 2006. The President's Budget proposes to consolidate economic development programs into a new unified community development effort administered by the Department of Commerce. The new program design will focus on communities most in need of assistance and will enhance the results of overall economic development efforts for communities across the nation. Potentially, these kinds of grant activities could be supported by the Department of Commerce's budget.

Round II Empowerment Zones have unexpended balances that remain available for program activities. An intermediate evaluation of EZs by the Urban Institute published in 2000 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.

NOTE: By the end of 2004, 57 percent of the funds had been disbursed and more than 53 percent under contract by the grantee to a third party; in addition, 86 percent of all committed funds have been formally committed to projects and programs through approval by EZ governance boards.

STATUS OF ROUND II EZ GRANTEE ACTIVITY

Grantee	Obligated	Disbursed	Balance
Boston	24,953,966.00	15,034,915.00	9,919,051.00
Cincinnati	24,953,966.00	15,395,437.97	9,558,528.03
Columbia	24,953,966.00	14,844,942.78	10,109,023.22
Columbus	24,953,967.00	17,815,842.71	7,138,124.29
Cumberland City	24,953,967.00	15,619,696.37	9,334,270.63
El Paso	24,953,967.00	11,291,695.86	13,662,271.14
Gary/Hammond	24,953,967.00	13,254,440.38	11,699,526.62
Huntington/Ironton	24,953,967.00	16,263,393.29	8,690,573.71
Knoxville	24,953,967.00	7,295,842.90	17,658,124.10
Miami	24,953,967.00	10,435,497.00	14,518,470.00
Minneapolis	24,953,966.00	13,673,481.07	11,280,484.93
New Haven	24,953,967.00	12,765,494.13	12,188,472.87
Norfolk	24,953,966.00	20,631,971.11	4,321,994.89
Santa Ana	24,953,967.00	14,295,839.08	10,658,127.92
St. Louis	24,953,967.00	14,916,101.00	10,037,866.00
TOTAL	374,309,500.00	213,534,590.65	160,774,909.35
Percent Disbursed of Total		57	

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>2004 Budget Authority</u>	<u>2003 Carryover Into 2004</u>	<u>2004 Total Resources</u>	<u>2004 Obligations</u>	<u>2005 Budget Authority</u>	<u>2004 Carryover Into 2005</u>	<u>2005 Total Resources</u>	<u>2006 Request</u>
Empowerment Zones/ Enterprise Communities/ Renewal Communities ..	\$14,912	\$164	\$15,076	\$14,912	\$9,920	\$299	\$10,219	...
Total Empowerment Zones	14,912	164	15,076	14,912	9,920	299	10,219	...

<u>FTE</u>	<u>2004 Actual</u>	<u>2005 Estimate</u>	<u>2006 Estimate</u>
Headquarters	9	9	9
Field	1	1	1
Total	10	10	10

Empowerment Zones/Enterprise Communities/Renewal Communities

COMMUNITY PLANNING AND DEVELOPMENT
EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
Program Offsets
(Dollars in Thousands)

Empowerment Zones/Enterprise Communities/Renewal Communities	<u>Amount</u>
2004 Appropriation	\$14,912
2005 Appropriation	9,920
2006 Request	---
Program Improvements/Offsets	-9,920

Proposed Actions

No grant funding is proposed for Round II Empowerment Zones (EZs) or Enterprise Communities (ECs) in fiscal year 2006 and they are expected to maximize the use of tax incentives in a parallel fashion to Round III EZs and Renewal Communities (RCs).

Potentially, some of the grant activities could be supported by the Department of Commerce's budget. The President's budget proposes to consolidate economic development programs into a new unified community development effort administered by the Department of Commerce. The new program design will focus on communities most in need of assistance and will enhance the results of overall economic development efforts for communities across the nation.

The 2000 Community Tax Relief Act (CTRA 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 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" and economic growth promotion requirements (for RCs) or a 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. Interagency meetings are in process to develop cost effective data collection strategies.

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 have earmarked grant funding in addition to tax incentives bonus points for other Federal programs, Round III Empowerment Zones utilize tax incentives, leverage and bonus points.

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. In one example of increases in tax incentive utilization, certifications issued by the states to authorize use of the work opportunity Tax Credits in the two categories tied to Federally designated RCs, EZs and ECS jumped 20 percent with the designations of the Renewal Communities and the Round III Empowerment Zones--from 47,700 (12.1 percent) of the overall Work Opportunity Tax Credit totals in 2001 and 2002 to 56,800 (14.2 percent) in 2003, according to data reported by the Department of Labor. On Round III EZ and the RCs, HUD is working hard to measure the actual use of tax incentives.

Empowerment Zones/Enterprise Communities/Renewal Communities

Business data from Dun & Bradstreet and Home Mortgage Disclosure Act data from HUD's office of Policy Development and Research indicate some improvements in the economic conditions in the designated RCs, EZs, and ECs. HUD is continuing work to develop valid, cost effective performance measures for utilization of the RC and EZ tax incentives and the impacts of the RC, EZ, and EC programs on conditions affecting the disadvantaged residents in the communities.

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, and partial data has been collected. HUD will continue to work to build on last year's success in budgeting to projects and programs, subcontracting and completing projects.

In 2003, HUD's office of the Inspector General published six audits of 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. The audits are now closed; reflecting significant reductions in the original total disallowed and questioned costs and subsequent management improvements.

In March 2004, GAO completed a review and released a report on the overview of the EZ/EC/RC programs finding that the programs are being implemented. They also recommended that HUD should collaborate more closely with the Internal Revenue Service and the Department of Agriculture on tax incentive utilization data. Additional reports by the GAO are mandated by Congress by 2007 and will review each separate Round of Empowerment Zones and complete a separate report on Renewal 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. 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.

Program Performance and Accomplishments. Cumulative performance of the Urban EZ/EC Initiative is diverse and far-reaching. Over 3,905 neighborhood-based projects and programs have been developed and are underway as a result of each EZs'/ECs' Strategic Plan. The \$1.3 billion in Federal seed money (Round I and II grants) and tax incentives has leveraged almost \$20 billion in additional public and private sector investments. The 15 Round II EZs reported in a 2004 publication, "Success Stories Round II Urban Empowerment Zones," that they leveraged over \$3.5 billion in public and private funding, or \$11.55 for every \$1 of EZ grant funds. They also created or retained 18,125 jobs. Well-known companies involved in the Zones include General Motors, Kimberly Clark, Ford, Chrysler, Toyota, Wells Fargo, Home Depot, ADP, The Walt Disney Company, GAP, Ameritech, Rite Aid, Microsoft, Starbucks, MCI/Worldcom, IBM, Amazon.COM, and many others.

Empowerment Zones/Enterprise Communities/Renewal Communities

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

Miami-Dade, Florida. An allocation of \$60 million in tax-exempt bonds available to each EZ helped develop Poinciana Park, an \$111 million multipurpose commercial and residential community. The new headquarters of MediVector Biopharmaceutical Centers, Inc., in the Park is expected to create 1,500 jobs for EZ residents.

Columbus, Ohio. In the Columbus, Ohio, EZ Hood Medical Services employs 115 people, 14 of whom reside in the EZ. A combination of EZ wage credits and local tax incentives helped make it possible to build a new kidney treatment facility with a 24-chair dialysis clinic and to create 30 new full-time jobs. Ohio Packing Company, a family-owned meat processing corporation that began operations in 1907, also reports significant benefits from the EZ tax incentives.

Baltimore, Maryland. Medo Manufacturing, a maker of air fresheners and related products, has a strong commitment to hire local residents for its factory in the Baltimore EZ. This commitment has translated into over \$1 million in tax credits for the 400-employee business since 1994 when the EZ was designated.

Tax Incentives. The EZs use tax incentives to help achieve strategic plan goals. Tax incentives only available to EZs include the following:

- Enterprise Zone Facility Bonds, which are tax exempt up to a certain ceiling. According to a 2004 GAO report, EZs issued over \$315 million in tax exempt bonds through 2001;
- Nonrecognition of Gain on Sale of EZ Assets; and
- Partial Recognition of Gain on Sale of EZ Stock.

RENEWAL COMMUNITIES

The 2000 Community Renewal Tax Relief Act (CRTR) 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 EZs in effective application of tax breaks, HUD is releasing an update of Dun and Bradstreet business contact lists for all RCs and EZs. We are also letting accountants partner with HUD to receive web-based training to learn the tax incentives. Also, five **TaxIncentives**" workshops were held during Spring 2003 in the Jacksonville, FL EZ; Memphis, TN RC; Tucson, AZ EZ; Santa Ana, CA EZ; and the Philadelphia/Camden RC and EZ. Then-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 Dun and Bradstreet data to market tax incentives and estimate utilization. HUD also published *Tax Incentives + Businesses = Jobs: A Marketing Primer on How to Entice Businesses to Renewal Communities, Empowerment Zones & Enterprise Communities.*"

The CRTR Act directed that a seven member Advisory Council on Community Renewal be appointed to advise the Secretary of HUD on the renewal of distressed communities. The Council held public hearings in Memphis, TN, Orange County, CA and Philadelphia, PA during HUD's 2003 workshops and submitted both an interim and final report. The Chairman, Robert Woodson of the National Center for Neighborhood Enterprise, hand-delivered the final report to the Secretary of HUD shortly after the Council completed its work in October 2004. The report stated that, "HUD's energetic efforts to conduct technical assistance workshops, provide data on businesses in the areas, and develop training material for accountants; businesses and economic development officials are instrumental in the success of the community renewal initiative and should be continued."

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.

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.

Tax incentives only available in RCs include the following:

- 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. According to PERMS, states allocated almost \$241 million in QREs to businesses in 2002 and \$209 million in 2003 (estimated); and
- Zero Percent Capital Gains Rate for the sale or transfer of RC Assets.

Tax incentives for both RCs and EZs include:

- Employment Credits for people who live and work in their RC or EZ. According to a 2004 GAO report, the IRS estimates that 24,000 tax returns filed in EZs from 1995-2001 saved businesses over \$250 million;
- 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.

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

- Southern Alabama. American Apparel, a 400-employee company that manufactures military uniforms was considering leaving its Selma, Alabama, plant until the Renewal Community tax incentives enabled it to prosper and expand. Reduced after-tax labor costs enabled the company to increase its workforce to 480 and install automation that it could not otherwise afford. The company is looking at a permanent press facility and an additional sewing plant, both of which would be located in the RC. Three automotive suppliers also have decided to locate in the RC and several others are considering doing so.
- Tacoma, Washington. In 2003, six projects applied for a portion of the \$12 million in accelerated depreciation available annually to each RC to promote commercial construction and renovation. The applications from these six totaled over \$26 million. The State of Washington, limited to the \$12 million maximum total, awarded allocations to the following firms in the RC:
 - Albers Mill building (Albers Mill LLC)--\$3.9 million
 - Courtyard Marriott Hotel (Hollander Investments, Tacoma Hospitality LLC)--\$3.2 million
 - Rainier Pacific Bank Building (Rainier Pacific Bank)--\$3.1 million
 - Ted Brown Music Building (Broadway Center Investors LLC)--\$1.3 million
 - Fraternity Hall (Roberson Building Co.)--\$0.5 million

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

Program Name: Empowerment Zones/Enterprise Communities/Renewal Communities					
Program Mission: To create sustainable, long-term economic development in distressed areas by using a Course of Action and economic growth promotion requirements (for RCs) and a strategic plan (for EZs). In the case of Ezs, there is a strong focus in improving designated areas through a wide range of community activities, e.g. housing, public services and improvements. For Ezs, the federal benefits include the statutory mechanism for establishing partnerships and leveraging public and private funds. For all Rounds of Ezs and RCs, additional federal benefits include tax incentives through the IRS, and the designee's implementation efforts include promoting the use of tax incentives. The indicators below represent goals identified in Implementation Plans, which are tracked by HUD:					
Performance Indicators	Data Sources	Performance Report		Performance Plan	
		2004 Plan	2004 Actual	2005 Plan	2006 Plan
New or rehabilitated affordable housing units completed	PERMS	2,512	4,391	2,731	N/A
Homeless residents served by homeless assistance programs	PERMS	2,000	12,934	3,088	N/A
Residents finding or retaining a new or existing job	PERMS	18,843	46,892	11,607	N/A
Total Qualified Revitalization Expenditures (QREs) allocated to businesses in the RC	PERMS	\$209 million	TBD	\$210 million	\$211 million

N/A = Not Applicable.

Explanation of Indicators

Community Renewal Programs exceeded performance targets for all three indicators in 2004. No new performance targets are being established for fiscal year 2006 because no new funding is requested. However, in order to establish a measure for the 40 Renewal Community's performance, OCR will track the commercial revitalization deduction allocation to businesses (QREs).

Empowerment Zones/Enterprise Communities/Renewal Communities

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

The 2006 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, \$10,000,000, 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. 1391(g)), including \$666,666 for each empowerment zone 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 2004 Availability
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2004 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2004 Resources</u>
Empowerment Zones/Enterprise Communities/Renewal Communities	\$15,000	-\$88	...	...	\$164	\$15,076
Total	15,000	-88	...	...	164	15,076

Empowerment Zones/Enterprise Communities/Renewal Communities

COMMUNITY PLANNING AND DEVELOPMENT
EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
 Crosswalk of 2005 Changes
 (Dollars in Thousands)

<u>Budget Activity</u>	2005 President's Budget <u>Request</u>	Congressional Appropriations Action on 2005 <u>Request</u>	2005 Supplemental/ <u>Rescission</u>	<u>Reprogrammings</u>	<u>Carryover</u>	<u>Total 2005 Resources</u>
Empowerment Zones/Enterprise Communities/Renewal Communities	\$10,000	-\$80	...	\$299 ^a	\$10,219
Total Changes	10,000	-80	...	299	10,219

a/ Includes \$135 thousand of recaptures during 2004.