

COMMUNITY PLANNING AND DEVELOPMENT
EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES/RENEWAL COMMUNITIES
2008 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>
2006 Appropriation	\$299	...	\$299	\$179	\$38,937
2007 Full-Year CR Estimate.....	...	120	...	120	120	35,000
2008 Request	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>30,000</u>
Program Improvements/Offsets	-120	...	-120	-120	-5,000

Summary Statement

No new grant funding is proposed for Empowerment Zones (EZs) Enterprise Communities (ECs), or Renewal Communities (RCs) in fiscal year 2008. Emphasis will continue to be placed on maximizing the use of tax incentives for EZs and RCs. Round II EZs are expected to maximize the utilization of available significant tax incentives in a parallel fashion to Round III EZs and RCs, both of which rely exclusively on tax incentives. The following indicates the status of grant funds provided to Round II EZs:

<u>Grantee</u>	<u>Obligated</u>	<u>Disbursed</u>	<u>Percent Disbursed</u>
Boston	25,615,299.00	20,187,353.00	79
Cincinnati	25,615,299.00	18,757,800.23	73
Columbia	25,615,299.00	16,999,522.60	66
Columbus	25,615,299.00	23,033,120.06	90
Cumberland City	25,615,299.00	19,856,715.90	78
El Paso	25,615,299.00	20,548,849.05	80
Gary/Hammond	25,615,299.00	15,889,879.38	62
Huntington/Ironton	25,615,299.00	21,906,348.99	86
Knoxville	25,615,299.00	12,777,636.90	50
Miami	25,615,299.00	21,585,370.00	84
Minneapolis	25,615,299.00	22,020,835.07	86
New Haven	25,615,299.00	20,777,727.98	81
Norfolk	25,615,299.00	24,320,235.11	95
Santa Ana	25,615,299.00	18,626,524.12	73
St. Louis	<u>25,615,299.00</u>	<u>19,613,940.00</u>	<u>77</u>
TOTAL	384,229,485.00	296,901,858.39	77

By the end of 2006, 77 percent of obligated funds were disbursed with more than 50 percent of the undisbursed funds under contract by the grantee to a third party. In addition, 90 percent of all obligated funds are formally committed to projects and programs through approval by the EZ governance boards.

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 Summary of Resources by Program
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2006 Budget Authority</u>	<u>2005 Carryover Into 2006</u>	<u>2006 Total Resources</u>	<u>2006 Obligations</u>	<u>2007 CR Estimate</u>	<u>2006 Carryover Into 2007</u>	<u>2007 Total Resources</u>	<u>2008 Request</u>
Empowerment Zones/Enterprise Community/Renewal Communities .....	...	\$299	\$299	...	...	\$120	\$120	...
Total .....	...	299	299	...	...	120	120	...
 <u>FTE</u>	<u>2006 Actual</u>	<u>2007 Estimate</u>	<u>2008 Estimate</u>					
Headquarters	12	12	12					
Field	3	3	3					
Total	15	15	15					

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

Empowerment Zones/Enterprise Community/Renewal Communities	<u>Amount</u>
2006 Appropriation
2007 Full-Year CR Estimate.....	...
2008 Request	<u>...</u>
Program Improvements/Offsets

The Omnibus Budget Reconciliation Act of 1993 authorized the Secretary of HUD to designate six 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 2000 Community Renewal Tax Relief Act (CRTR Act) authorized the designation of 40 Renewal Communities (28 urban, 12 rural) and nine Round III Empowerment Zones (17 urban, two rural), as well as tax incentive provisions to support community revitalization efforts.

The goal of the Renewal Communities (RCs) and Empowerment Zones (EZs) 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) developed and implemented in partnerships among private, public, and non-profit 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 these communities' primary benefit is tax incentives, HUD is responsible for oversight of measuring performance of the communities. The progress in carrying out the strategic plans and commitments is tracked in HUD's Internet based Performance Measurement System (PERMS).

Proposed Actions

No grant funding is proposed for Round II Empowerment Zones (EZs) or Enterprise Communities (ECs) in fiscal year 2008. The program will focus on disbursing unexpended grant balances maximizing the use of tax incentives.

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

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 non EZ grant 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. From 2003 to 2005, there was an additional increase to 76,144 (34 percent).

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In March 2004, GAO completed a review and released a report on the overview of the EZ/EC/RC programs. In September 2006, GAO completed a review and release a report on the "Round 1" EZ/ECs, which HUD and USDA designated in 1994. In the 2004 report GAO recommended that HUD should collaborate more closely with the Internal Revenue Service and the Department of Agriculture on incentive utilization data. Additional reports by the GAO are mandated by Congress through 2010, which will include a review of each Round of Empowerment Zones and a separate report on Renewal Communities. The GAO released it's report on the Round 1 EZs and ECs in September 2006.

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; and
- **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 the EZ/EC Strategic Plans. 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 2004 publication, "Success Stories Round II Urban Empowerment Zones," reported that Round II EZs 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. In late 2005, HUD published *Spotlight on Results: Capturing Successes in Renewal Communities and Empowerment Zones*, which contains numerous examples.

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 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.

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- 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;
- Non-recognition 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 encourages 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 business contact lists for all RCs and EZs. 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. 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 during which 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 project sponsors 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 sponsors 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; and
 - Fraternity Hall (Roberson Building Co.)--\$0.5 million.

Empowerment Zones/Enterprise Communities/Renewal Communities

**COMMUNITY PLANNING AND DEVELOPMENT
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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	
		2006 Plan	2006 Actual	2007 Plan	2008 Plan
Commercial Revitalization Deductions allocated	PERMS	\$211 million	\$259 million	\$225 million	\$235 million
RC/EZ employment credits claimed by sole proprietors.	Third party data	\$90 million	N/A	\$95 million	\$100 million
Percent total businesses in RC/EZs per population vs. national average.	Third party data	95%	N/A	96%	97%
Percent total addresses vacant 90 days in RC/EZs per population vs. national average.	Third party data	280%	280% (7.6 vs 2.7 per 100)	270%	265%
Earned-income tax credit claimed per population in RC/ESs	Third Party data	158%	N/A	159%	160%

N/A = Not Applicable.

Explanation of Indicators

HUD CPD's Office of Community Renewal (OCR) is revising performance measures for the Renewal Community (RC) and Empowerment Zone (EZ) Initiatives to focus on outputs related to utilization of the \$11 billion tax incentive package for businesses effective for RCEZs for 2002-2009 under the Community Renewal Tax Relief Act of 2000 and on outcome indicators that may reflect impacts on the business climate and tax base intended to benefit the low-income and unemployed residents of the RCEZ areas.

Commercial Revitalization Deductions. The allocation of commercial revitalization deductions (CRDs) in the RCs, which measures utilization of tax incentive that subsidizes new construction and substantial rehabilitation of primarily commercial/industrial buildings and indicates how energetically the states and local entities are implementing the RC initiative.

RCEZ Employment Credits. The total RCEZ employment credits claimed by sole proprietor business owners for employees who work exclusively and reside within the same RC or EZ, which are available up to a maximum per employee of \$1,500 per year in an RC or \$3,000 per employee per year in an EZ.

Businesses in HUD-designated RCEZs. The percent of businesses in the HUD-designated RCEZs per population versus national average, since a change in this ratio may indicate an impact on the climate for businesses in the 70 HUD-designated RCEZs.

Addresses in RCEZs. The percent of total addresses in the RCEZs that are vacant for at least 90 days versus national average, since a change in this ratio may indicate an impact on relative distress levels over time.

Earned Income Tax Credits. The number of earned income tax credits claimed per population in RCEZs, versus national average, because difference percentages for the total populations and different rates of change may indicate an impact on the low-income and unemployed population of the RCEZs.

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Justification of Proposed Changes in Appropriations Language

Explanation of Changes

No change. There was no appropriation in fiscal year 2007 and no new funding is proposed for 2008.

Empowerment Zones/Enterprise Communities/Renewal Communities

COMMUNITY PLANNING AND DEVELOPMENT
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 Crosswalk of 2006 Availability
 (Dollars in Thousands)

<u>Budget Activity</u>	<u>2006 Enacted</u>	<u>Supplemental/ Rescission</u>	<u>Approved Reprogrammings</u>	<u>Transfers</u>	<u>Carryover</u>	<u>Total 2006 Resources</u>
Empowerment Zones/Enterprise Community/Renewal Communities	\$299	\$299
Total	299	299

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COMMUNITY PLANNING AND DEVELOPMENT
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 Crosswalk of 2007 Changes
 (Dollars in Thousands)

<u>Budget Activity</u>	2007 President's Budget Request	FY 2007 CR Estimate	2007 Supplemental/ Rescission	Reprogrammings	Carryover	Total 2007 Resources
Empowerment Zones/Enterprise Community/Renewal Communities	\$120	\$120
Total	120	120