

**EMPOWERMENT ZONES**

**Summary of Administration's Original Proposal**

## **EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES**

### **Details of Legislative Provisions**

- A. Change the Way Government Works in Distressed Areas --** This proposal offers local communities the incentives, targeted investments, deregulation and flexibility they need to work with the private sector to develop comprehensive economic strategies to generate business, create jobs, make their streets safe, build community, and empower people to get ahead. No community will be eligible for a single dollar of federal enterprise support, however, unless it submits such a comprehensive strategic plan that brings together the the community, the private sector and local government and demonstrates how it will reform the delivery of government services to achieve these goals. All designations, grants, awards, and waivers will be made through a single, competitive designation process open to all distressed communities, rural and urban, across the country.
- B. Enterprise Board and Waiver Authority**
- **Composition of Enterprise Board:** The Act creates an Enterprise Board composed of the Secretaries of HUD, Agriculture, Interior, Treasury, HHS, Education, Labor, Commerce, Veterans Affairs, Transportation, the Attorney General, EPA Administrator, Small Business Administrator, and Director of Office of National Drug Control Policy. Up to 11 other members may be designated by the President.
  - **Single Point of Contact:** One Cabinet Secretary will provide a single point of contact for issuing the request for proposals, reviewing the comprehensive strategic plans, and receiving requests for assistance and regulatory waivers for each local community.
  - **Authority to Develop Selection Criteria:** The Enterprise Board is charged with developing the selection criteria for designating empowerment zones and enterprise communities. The criteria must include consideration of the effectiveness of the strategic plans, the assurances and measurable benchmarks to implement such plans, and their innovation and promise in achieving the goals of the Act.
  - **Waiver Authority:** The Enterprise Board is authorized to waive any provision of Federal law or regulation administered by the Secretaries of HUD, Agriculture, HHS, Labor, or Education, if the Board determines the waiver is necessary for achievement of the purposes of the Act with respect to implementing the comprehensive strategic plan of an empowerment zone or enterprise community. The Board must consult with the relevant agency before granting any waiver. Any disputes will, ultimately, be resolved by the

President.

- **Exceptions to Waiver Authority:** Excluded from this waiver authority are rules for eligibility and benefits under the Social Security Act and Food Stamp Act, and laws and regulations concerning public or individual health, safety, civil rights and non-discrimination, environmental protection, labor relations, labor standards, occupational health or safety, pensions, taxation or any other law that the Attorney General shall by regulation exclude.

### C. Competitive Designation Process

- **Designating Secretaries:** In consultation with the Enterprise Board, the Secretary of HUD will designate the urban zones, the Secretary of Agriculture will designate the rural zones, and the Secretary of Interior will designate the Indian zones.
- **Comprehensive Strategic Plan:** Applicants must meet the eligibility criteria and put forward a comprehensive strategic plan for coordinated economic, human, community and physical development for the proposed nominated area. The plan must describe: (1) how the affected community is a full partner in the process of developing and implementing the plan; (2) the extent to which the State, local, and private resources will be available in the nominated area; (3) the baseline, methods of evaluation, and benchmarks for measuring success in carrying out the plan.
- **Revocation of Designation:** The Designating Secretary, in consultation with the Enterprise Board, may revoke the designation if the local government modifies the boundaries of a zone or is not complying substantially with, or fails to make progress in, achieving benchmarks in the strategic plan.

### D. Performance Review, Independent Evaluation and Sunset

- **Annual Reviews:** Each designated area will be reviewed annually for performance in achieving benchmarks contained in its strategic plan. We will learn from the best efforts of 110 communities all across America what works and what doesn't.
- **Requiring Results:** In the event of substantial noncompliance or failure to make progress in achieving benchmarks, the Designating Secretary may withhold or reduce enterprise grant amounts or require appropriate changes in the strategic plan.
- **Independent Evaluation:** The National Academy of Sciences will conduct an

independent study of the effectiveness of empowerment zones and enterprise communities and publish interim and final reports in 1997 and 2003 respectively. Based thereon, the Congress may modify, extend, expand, or reopen the Act.

- **Sunset:** Ten years after enactment, this Act will sunset. This will assure careful consideration of what works and what doesn't.

#### **E. Number of Designated Areas (Zones)**

##### **Empowerment Zones:**

- 10 zones with 6 urban (and a total resident population at the time of designation of 750,000 or less), 3 rural (total population of 90,000), and 1 Indian reservation.
- All may be designated as early as 1994. Designation runs for 10 years, subject to early termination for non-compliance or failure to achieve results.

##### **Enterprise Communities:**

- 100 zones (65 urban, 30 rural, and 5 Indian).
- All may be designated as early as 1994. Designation runs for 10 years, subject to early termination.

#### **F. Eligibility Criteria**

##### **1. Geographic and Population Restrictions**

- Urban zones can consist of up to 3 noncontiguous areas in 2 or fewer states.
- Rural zones can consist of up to
  - 3 noncontiguous areas if located in 1 state, or
  - 1 contiguous area if located in up to 3 states.
- **Size limits:**  
20 square miles for urban zones.  
1,000 square miles for rural and Indian zones.
- **Maximum population:**
  - For cities with populations of 500,000 or above, the lesser of

- 200,000 residents or 10 percent of city population.
- For cities with populations less than 500,000, zones can have a maximum population of 50,000 residents.
- For rural areas up to 30,000 residents.

## 2. Poverty Rates:

Generally, within each zone,

- 50 percent of census tracts must have a poverty rate of 35 percent or more,
- 90 percent of census tracts must have a poverty rate of 25 percent or more, and
- 100 percent of census tracts must have a poverty rate of 20 percent or more.

Subject to the following exceptions --

- The Designating Secretary has discretion to reduce by 5 percentage points the 35 percent, 25 percent, and 20 percent thresholds for not more than 10 percent of the tracts in the zone (or, if fewer, 5 tracts).
- There is also a special exception for census tracts having either (i) no population, or (ii) population less than 2,000 residents where more than 75 percent of the tract is zoned for commercial or industrial use.
- Central business districts can be included in zones but any tract including part of the central business district must have a poverty rate of 35 percent or more.

G. **Investments Under the Act** -- Approximately \$4 billion in existing investments will be targeted with approximately \$4 billion in new tax incentives on empowerment zones and enterprise communities.

1. **Enterprise Grants** -- a total of \$513,500,000 is authorized for FY 1993 and 1994 for enterprise grants.

- **Amount of Grants In Empowerment Zones:** up to \$30 million per year for urban and up to \$10 million per year for rural or Indian zones.
- **Amount of Grants In Enterprise Communities:** Up to \$3 million per year for urban and up to \$1 million per year for rural or Indian zones.

- **Uses of Grants:** Applicants must state in their coordinated strategic plan how they will invest enterprise grant monies. Once zones and communities are designated, spending must conform to the approved plan. Communities will be free to propose uses that they feel are most needed and effective in achieving the enterprise mission. Possible examples of uses include:

- creating new, coordinated delivery systems for relevant government services
- creating community lending or micro-enterprise loan funds
- providing technical assistance, entrepreneurial support, workforce skill programs and job-search and job-matching networks in the labor market
- leveraging private matching support
- matching funds for community development corporations

**2. Community Policing** -- A total of \$500,000,000 is authorized for FY 1993 and 1994 for public safety and policing grants.

- The Attorney General may award grants to enterprise zones or enterprise communities to increase police presence, expand cooperative efforts between law enforcement and the community and assure public safety.
- In making community policing awards, the Attorney General will give priority to empowerment zones and enterprise communities and will consult with the Enterprise Board in making such grants.

**3. Innovative Programs and Zone Priority Investments** -- In addition to priority participation in the new funds for the proposed Community Development Banking Fund, the President has also requested his Cabinet to offer proposals to target at least another \$3 billion of existing funds within the zones and communities. Several departments have already made commitments for innovative programs equalling this amount, while other agencies have offered to give priority designations for additional agency initiatives to zones and communities. All of these programs and initiatives call for substantial, community-based, bottom-up planning. They will all be made available through the designation process so that applicants may integrate these programs into their comprehensive strategic plans. Examples include:

- Community Partnerships Against Crime (HUD)
- Up to 30 Enterprise School Communities (DoEd)
- Matching Fund for CDCs (HUD)
- SBA, Commerce, and EDA funds and technical assistance

- School-to-work, Apprenticeship, YouthBuild, Job Corps (DoEd, DOL, HUD)
- "One Stop" Career and Opportunity Centers (JPTA/DOL)
- Drug Prevention and Rehabilitation-to-Work (HHS/DOJ)
- Distressed Public Housing, Access and Moving to Opportunities (HUD and DOT)
- McKinney Homeless Shelter, Training, Self-sufficiency (HUD)

4. **Flexibility over Existing Federal Funds** -- Perhaps most valuable, waivers will be granted by the Enterprise Board as appropriate to allow each zone or community to implement its own strategic plan. This will allow local communities to make existing federal dollars from many sources and programs go further and accomplish more. Zones and communities will then be judged not on whether they adhere to a maze of often conflicting federal regulations, but on the extent to which they perform in achieving the benchmarks established in their own comprehensive strategic plans.

## H. Tax Incentives for Empowerment Zones and Enterprise Communities

### 1. Zone Resident Empowerment Savings Credit

- Provide a 50 percent credit on zone employers' retirement plan contributions (for their employees who live and work in the zone) up to 2 percent of compensation not in excess of \$35,000.
- Employer's contribution may be in the form of an employer match or non-elective contribution (i.e., it may not be in form of a salary reduction).
- Retirement plan must be a qualified defined contribution plan, other than an ESOP or stock bonus plan, and for small employers may be a simplified employee pension.
- Penalty free withdrawals could be made to pay for education, health expenses, and purchases of new homes (or start a business).
- Credit would be in lieu of employers' deduction of contribution.
- Credit would be in addition to the ETC.
- Employer contribution must be 100 percent vested.

- No AMT offset.

## 2. Low-income housing credit expanded for construction

- For purposes of low-income housing tax credit, zone tracts with at least 30 percent poverty levels qualify as "difficult to develop" area, so credit is increased by 30 percent. Effect is the same as providing 91 percent credit instead of 70 percent, or 39 percent credit instead of 30 percent.
- Subject to existing volume caps.

## 3. Tax-exempt enterprise zone facility bonds for zone businesses

- New category of exempt activity bonds created for facilities of qualified zone businesses located in zones.
- Up to \$3 million per business per zone in bond funding and \$20 million per business for all zones.
- 50 percent of financing subject to existing volume cap.
- Bonds are excepted from section 265 bank deductibility prohibition.

# I. Tax Incentives Available only for Empowerment Zones

## 1. Employment and Training Credit (ETC)

- From designation through 2000, employer credit of 25 percent of the first \$20,000 of wages earned by employees who are zone residents and perform all services in the zone.
- Rate of credit phases-out 5 percent per year from 2001 through 2004.
  - in 2001, the credit is 20 percent
  - in 2002, the credit is 15 percent
  - in 2003, the credit is 10 percent
  - in 2004, the credit is 5 percent
- 25 percent AMT offset.
- Qualified wages include certain training and educational expenses paid on behalf of the employee.
- Available to all businesses that employ zone residents to work in the

zone.

## 2. Targeted Jobs Tax Credit (TJTC)

- Zone residents would become a targeted group. Employers (including employers outside the zone) would claim the 40 percent TJTC credit on up to \$6,000 of first-year wages of zone residents.
- Zone employers not eligible for both ETC and TJTC on first-year wages (may choose on employee-by-employee basis).
- Available to all non-zone businesses.

## 3. Property expensing

- Increase section 179 expensing for depreciable property for qualified zone businesses from \$10,000 to \$75,000 per year.
- Expand expensing to include buildings used in qualified zone businesses.
- The end of the phase-out range of section 179 applying to personal property extended from \$210,00 to \$350,000 of property placed in service.
- Section 179 increase also applies for AMT purposes.
- Among other requirements to ensure close ties to the zone, qualified zone businesses must have at least 35 percent of employees who are zone residents, and do not include certain types of businesses.

## 4. Accelerated depreciation

- Allow shorter recovery periods for section 168 depreciation of investment in tangible property, including buildings, used in qualified zone businesses.
  - 3-year property depreciated over 2 years.
  - 5-year property depreciated over 3 years.
  - 7-year property depreciated over 4 years.
  - 10-year property depreciated over 6 years.
  - 15-year property depreciated over 9 years.
  - 20-year property depreciated over 12 years.
  - Non-residential real property depreciated over 22 years.

- Shorter recovery periods would be used for AMT purposes.
- Among other requirements, qualified zone businesses must have at least 35 percent of employees who are zone residents, and do not include certain types of businesses.

#### **5. Tax-exempt Financing for Resident Owned Businesses and Community Investment Corporations and Funds**

- Provide tax-exempt bond financing for businesses and community investment corporations and funds that are more than 50 percent owned by individual zone residents.
- Up to \$3 million per business per zone in bond funding and \$20 million per business for all zones.
- 25 percent of financing subject to existing volume cap.
- Bonds are excepted from section 265 bank deductibility prohibition.

The labor incentives -- ETC and TITC -- account for approximately 80% of the FY94-FY98 \$4.1 billion in tax incentives.

## EMPOWERMENT ZONES

Across the country, communities are reeling from a decade of declining opportunity and rising social and economic isolation. The Clinton Administration is introducing the Economic Empowerment Act of 1993 as the first piece of a larger community empowerment agenda to bring on a new era of opportunity, responsibility and community for all Americans.

The Empowerment Zone proposal represents a new approach to the problems of distressed communities. It moves beyond the old debate that the answer to every problem is top-down bureaucracy on the one hand or trickle-down economics on the other.

The traditional enterprise zone approach assumed that tax breaks alone can revitalize communities without changing the way government does business. The Clinton proposal gives local communities the incentives, deregulation and flexibility they need to work with the private sector to develop comprehensive economic strategies to attract business, create jobs, make their streets safe, and empower people to get ahead.

**1. BOTTOM-UP, COMMUNITY-BASED STRATEGY:** Empowerment Zones will be awarded through a competitive, challenge grant process that gives communities new opportunity, but demands more responsibility from them in return. No applicant will be eligible for a single dollar of federal enterprise support unless it submits a comprehensive strategic plan that brings together the community, the private sector and local government and demonstrates how the community will reform the delivery of government services. The challenge grant process is designed to empower local communities to be as innovative as possible.

**2. ONE-STOP WAIVER AUTHORITY:** An Enterprise Board -- made up of relevant Cabinet Secretaries -- will provide communities a single point of contact, and have broad waiver authority to help communities use existing federal programs and resources more effectively and efficiently to carry out their strategic plans.

**3. 10 EMPOWERMENT ZONES AND 100 ENTERPRISE COMMUNITIES:** A total of 110 zones will be chosen through the empowerment challenge grant process. All 110 will be eligible for empowerment tax incentives and receive special priority for many innovative federal programs including Community Development Banks, Community Policing, and education reform. The 10 Empowerment Zones will qualify for additional tax incentives, including substantial Employment and Training Credits for businesses that employ people who live within the zones.

**4. INDEPENDENT EVALUATION AND SUNSET:** The Act provides for independent evaluation of what works and what doesn't before expanding to include other communities. The entire Act will sunset after 10 years.

## SUMMARY OF ZONE INCENTIVES AND INVESTMENTS:

In addition to enhanced flexibility to coordinate strategic plans, the 10 Empowerment Zones and the 100 Enterprise Communities will receive or be eligible for five basic forms of incentives and investments: a) Capital incentives to spur private sector investment; b) Empowerment incentives; c) Employer wage credits that empower both businesses within the zone and businesses outside of the zone that hire zone residents; d) Investment programs, such as community policing and enterprise schools; and e) Zone Priority Investments. A host of federal programs will give recipients of the 110 zones priority status for grant applications for investments that may be essential to a comprehensive empowerment strategy. Starred incentives (\*) are available only for the 10 Empowerment Zones.

### CAPITAL INCENTIVES

- Tax-exempt private activity bonds for investments in tangible property in zone
- Expansion of Low Income Housing Tax Credit
- Increased Property Expensing under Section 179\*
- Accelerated depreciation for tangible investments\*

### EMPOWERMENT INCENTIVES

- Resident Empowerment Savings Accounts -- tax credits for employer contributions; penalty-free withdrawals for education, purchase of first home, starting a small business or investing in community investment corporation or fund
- Resident Empowerment Opportunity Card
- Private activity bonds for zone businesses, community investment corporations and funds, and Worker-controlled Enterprises owned 50% or more by zone residents\*

### EMPLOYMENT AND TRAINING CREDITS ("ETC") FOR ZONE RESIDENTS

- A multi-year ETC for zone employers\*
- A one-year Targeted ETC for non-zone employers\*

### INVESTMENTS UNDER THE ACT

- Enterprise Grants
- Community Policing

### ZONE PRIORITY INVESTMENTS

- Community Partnerships against Crime
- Community Development Financial Institutions and Banks
- HUD Matching Fund for CDCs
- Up to 30 Enterprise School Communities
- SBA, Commerce and EDA funds and technical assistance
- School-to-Work, Apprenticeship, Youthbuild, Youth Fair Chance, Job Corps
- Drug Prevention and Rehabilitation-to-Work
- "One Stop Shop" Career Centers (JPTA), Access and Moving to Opportunities
- Distressed Public Housing, McKinney Homeless Shelter Assistance

## COSTS AND PLACEMENT

### COSTS

**Tax Incentives:** The President's FY1994-1998 Budget includes a total \$4.1 billion over five years in tax incentives. Approximately 80% of the cost comes from the Employment and Training wage tax credits.

**Investments:** The Empowerment Zone Proposal aims to match that amount by targeting existing investments towards Empowerment Zones and Enterprise Communities. Over the next two years, \$500 million currently in the budget will be allocated to Enterprise Grants for empowerment zones and communities. An additional \$500 million will go to community policing, of which a substantial amount will be targeted toward the 110 zones.

**Innovative Programs:** In addition, the President has requested that his Cabinet come forward with proposals to target at least \$3 billion of existing funds within the zones and communities so that there can be an equal amount of investments and tax incentives.

Several departments have already made that commitment. For example, the Department of Education has already committed funding and support for local communities to create 30 Enterprise Schools -- 24-hour, year-round community centers -- within the zones. HUD has agreed to target \$200 million of its Community Partnership Against Crime funds -- public safety and drug prevention -- in the zones.

### PLACEMENT

**100 Enterprise Communities:** Of the 100 Enterprise Communities, 65 will be in urban areas, 30 will be in rural areas, and 5 will be on Indian reservations.

**10 Empowerment Zones:** Of the 10 Empowerment Zones, 6 will be reserved for urban areas, 3 will be rural areas and 1 will be an Indian reservation.