Bruce Reed-fyi

E-Zones

COMMITTEE ON EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES
B-346-C RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6108

SUBCOMMITTEE ON HUMAN RESOURCES

The Honorable William J. Clinton
President of the United States
The White House
Washington, DC 20500

AUG - 2 REC'D

Dear Mr. President:

As you know, I attended the meeting you held with the Congressional Hispanic Caucus at which the Caucus presented its concerns with the ongoing negotiations on the reconciliation bill. The Caucus discussed several items of concern in connection with this legislation. I would like to take this opportunity to share with you some of my views on two of those specific topics.

1. Empowerment Zones

As you know, the House passed version of the reconciliation package contains $6 billion for empowerment zones. As I understand your proposal, this is a variation on the Enterprize Zone proposal that has been considered by the Congress on several occasions. Enterprize zones allow certain tax and other advantages to companies who agree to locate in economically distressed communities. This concept was developed in the United Kingdom and was seen by former HUD Secretary, Jack Kemp, as an appropriate approach to revitalization of communities.

Empowerment zones have one major distinction from enterprize zones in that they provide tax incentives only where the company actually employs people who reside in the zone.

I believe that I have a better idea, which I believe will provide more effective results over the long term. In the 102nd Congress and again in this Congress, I introduced HR 818, the Community Service Empowerment Amendments of 1993, which I believe will, if enacted, enhance the present Community Development Corporation program by creating revolving grant and loan funds to encourage creation of employment opportunities from within the communities that manage the funds. Monies that would be invested in these funds form the basis for the entreprenurial activities started in the localities which would grow through repeated investment in the human resources of the community.

To cite but one example from a hearing I chaired last September, New Bethel Life of Chicago used a revolving grant and loan fund to establish several local day care centers with local residents as the owner operator of the centers. In each case, a mother on welfare was able to become a fully participating economically self-sufficient taxpayer as she provided a vital service to her community.

Stories such as this abound across the country. And yet, we find the Federal Government has not become a full partner in these activities. My bill would bring us into that partnership in a meaningful way - not as the stern and overbearing parent, but as the equal partner providing our share to the partnership.

As we have learned from the disasters in South Florida and elsewhere, it is locally based partnerships forged out of shared difficulties that work best.

As we, I hope, have learned from the Los Angeles riots, when the people do not have a stake in the community, they can, out of frustration, destroy that community. However, within that strife torn community, there were specific businesses that were not touched by the riots. These included the Vermont-Slausen Economic Development Corporation's shopping center and 600 unit housing project. Why were those entities not harmed in the civil unrest? Because the residents recognized that these were community owned and built enterprises - enterprises in which the residents have a say and a stake. We can help give others that stake. I believe that it is critical that we take this action, because we cannot as a nation continue to lose communities to self destruction.

As you certainly are aware, the Senate conferees are interested in making cuts to your empowerment zone proposal, to limit the price tag. I supported your proposal and will continue to support it. But, I believe that we should consider a compromise that, while curtailing the size of the enterprise zone proposal, would offer an alternative, one that is cheaper, by diverting some of those savings into Community Development, as embodied in my bill.

As drafted, HR 818 calls for a total investment by the Federal government of $500 million, the major part of which would be in a revolving grant and loan fund that can be used by established and emerging Community Development Corporations as seed monies to establish projects within their communities. This authorization also includes funding for technical assistance to emerging CDCs as well as a fund to provide start up funding (limited to $75,000 per unit) to expand CDCs into new communities in need.

I should point out that CDCs, as evidenced by the hearings my subcommittee has held, have leveraged funding of this type by six to fifteen times and that, rather than being a program that costs the government money, this has beeen shown to be an approach that generates far more tax revenues and infrastructure enhancement revenues that any other.

2. Earned Income Tax Credit

When the Earned Income Tax Credit (EITC) proposal first was raised in the Congress a number of years ago, I looked at it with some skepticism. I continue to believe that it is of questionable value as a policy of the Federal government. The EITC, as you know, is a negative income tax that is paid to low wage workers either as an add-on to a tax refund at the end of the year or added to one's paycheck throughout the year. This is an attempt to ensure that low wage earners are supplemented by the tax system. Until now, the EITC has applied only to wage earners with dependents. The House passed version of the reconciliation bill extends the credit to 7 million low wage workers who do not have dependents.

I believe that this is wrong from a policy perspective - not because those workers do not need assistance, but because the Federal treasury is not supplementing the worker - it is supplementing the employer.

Under the House proposal, for instance, the credit for workers without dependents applies if one has wage income of less than $9,000. If one works an average of 40 hours per week for a year, one should be paid for 2,080 hours of work. On an hourly basis, $9,000 yields $ 4.32 per hour, which is only slightly above the current minimum wage. The maximum credit is $306, which phases out for wages above $5,000 per year, and which actually adds only fourteen cents per hour to that wage. That seems to me to be ludicrous, especially in view of the costs of processing the paper work necessary to claim the credit to the employee, the employer and the IRS.

Even considering the most generous credit, that applying to a worker with two or more dependents, which applies to the worker making $11,000, I see little or no real value to this proposal. The poverty level for a family of three (the smallest family level that is required to get the maximum credit) as of the latest statistics, is about $12,000. This works out to $ 5.75 per hour, and the credit would add about $1.25 per hour to that, raising the family slightly above the poverty level. And yet, even that is not the case.

If the family consists, as most of these do, of a single parent with two children, and the income is $11,000, the parent actually pays no income tax, but also does not receive (generally) any health care, child care or other benefits from the employer. If the worker went on AFDC, he or she would probably net as much spendable income, given food stamps, medicaid coverage, and other poverty programs, as when working. So the EITC is not an incentive for these people to enter the work force.

In my personal view, the EITC represents bad tax policy and bad social policy. What it does is benefit those employers who refuse to pay living wages to their employers. The employer is supplemented through the tax system both directly by the targeted jobs credit, and indirectly through this credit. It seems to me that it would be better to raise the minimum wage to an appropriate level to enhance the benefits of working versus welfare, and eliminate all of these complicated and self defeating tax gimmicks.

That said, of course, I want to assure you that I will continue to support your economic program as it comes to a vote after conference.

I hope that you will review these points and, if possible, consider these alternatives in your negotiations with the Conferees. Should you have any questions, I will be happy to discuss them with you or your staff.

Thank you.

Sincerely yours,

Marty

MATTHEW G. MARTINEZ
Chairman

CC: Robert E. Rubin, Assistant to the President for Economic Policy
Carol Rasco, Assistant to the President for Domestic Policy
Howard Paster, Assistant to the President and Director for Legislative Affairs

File

July 31, 1993

MEMORANDUM FOR HOWARD PASTER, BRUCE REED, GENE SPERLING

FROM: PAUL DIMOND

SUBJECT: EMPOWERMENT ZONES

I. BACKGROUND

Chairmen Moynihan and Rostenkowski apparently have agreed to Congressman Rangel's proposed structure and financial support for Empowerment Zones and Enterprise Communities:

- 10 Empowerment Zones (6 urban, 4 rural) and 100 Enterprise Communities (65 urban, 35 rural)

- $2.5B in tax incentives over 5 years, with approximately 85% allocated to the 10 zones (including a flat wage credit to zone employers for all zone resident employees, increased expensing and accelerated depreciation, zone facility bonds, and expanded low-income housing tax credits) and 10% allocated to the 100 Enterprise Communities (zone facility bonds and low-income housing tax credits). [There is also a provision for deferral of gains for all SSBIC's across the country; and separate tax incentives for Indian Reservations.]

- $1.0B in a capped entitlement under Title XX of the Social Security Act over 5 years, with approximately 60% allocated to the 6 urban zones, 20% to the rural zones, and 20% to the 100 communities. Title XX provides for block grants on a range of social programs and, as currently administered, is not targeted toward economic development.

II. ISSUES

We can successfully implement the basic structure tentatively agreed to by Chairmen Rostenkowski and Moynihan. For that reason, I do not recommend that we aggressively seek any modifications. There are, however, at least two issues on which we may well be asked either to state a position or to help shape an acceptable compromise.

A. CAPPED ENTITLEMENT. Senators Riegle, Bradley, and Biden strongly advocated an alternative approach to the $1.0B capped entitlement under Title XX: a menu of programs targeted to economic and community development. Included are $120M for CDFIs and $240M for community policing, two of the President's highest priorities: both are essential to economic revitalization of distressed communities, and both are at risk this year if forced back into the authorizing/appropriation process. The menu proposal also provided for a broader distribution of benefits among the zones and communities, with grant amounts based on the quality of the strategic plans submitted in the designation process.

All of the relevant chairs of the Senate Authorizing Committees and Appropriators (including Byrd and Mikulski) agreed to the Menu approach, as well as House Authorizing Committee Chairs Gonzalez and Ford. I am not sure whether Appropriators Natcher and Stokes were consulted because Chairman Rostenkowski apparently wished to keep the capped entitlement within the sole jurisdiction of the Ways and Means Committee under Title XX; and Congressman Rangel wanted to maximize the spending on the 6 urban zones.

RECOMMENDATION: If the Administration is asked for a position, I believe that we should make known our preferences (a) to provide funding for CDFIs and community policing and (b) to allow for a more balanced allocation of the investments based on the quality of the strategic plans submitted in the designation process. Both of these policy preferences can be accommodated under the Menu advocated by most Senators. I also believe, however, that Representative Rangel's proposed Title XX approach could be amended or supplemented to accommodate Administration priorities. Perhaps, there is a basis for a compromise that works for everyone.

B. TAX INCENTIVES. Senator Lieberman has strongly protested (a) the lack of capital incentives and (b) the few number of empowerment zones. His proposal for 50-75 empowerment zones with a wider range of tax incentives, however, is flat out impossible within the constraints of any conceivable budget (whether $2.5B or three times that amount).

RECOMMENDATION: If Senator Lieberman makes this a break issue for reconciliation, there is a workable approach to address his concerns within budget constraints:

- make the wage credit for zone resident employees incremental rather than flat, and only to extent of increases in full-time employees over a baseline

- include a deferral of gain on roll-over of existing investments into closed-end Mutual Funds investing in the 110 zones and communities [This could be further targeted to micro-enterprise, small business, and/or venture capital investments in the 110 zones and communities if necessary to reduce the scoring cost; it is analogous to the deferral of gain provision for SSBICs already included.]

- include a credit to zone employers for contributions to zone resident employee savings plans [This "bottom-up," zone resident empowerment provision was included in the Administration's original proposal and in the original House Package. It is a resident employee version of the Individual Development Account that the President touted during the Campaign.]

- only as a last resort, increase the number of zones, but only to 15 or 20 (by reducing the amount of the incremental wage credit)

I believe that Chairman Rostenkowski and Congressman Rangel (and most of the Senators) care much less about how the tax benefits are structured than about the capped entitlement. There is room for compromise, subject to one **caveat**: the increase in the number of zones will dilute the spending on the 6 urban zones under the capped entitlement proposed by Representative Rangel. As a result, any compromise increasing the number of zones must be consistent with any compromise reached on the capped entitlement.

III. CONCLUSION

Senate staff is meeting on both of these issues on Saturday. I will keep you apprised of any developments. My pager number is 4148 if you need to reach me at any time. Please call me if you have any questions or I can be of help at any time.

Gene/Bruce
— Speaking of a "victory" lap: how about using this as a "springboard" to a major private investment in America's communit
Paul D.

Center for Corporate Public Involvement

American Council of Life Insurance
Health Insurance Association of America

Stanley G. Karson, Director

July 8, 1993

Mr. Paul Diamond
The White House
Old Executive Office Building
Room 225
Washington, DC 20500

File: E-Zones

Dear Paul:

Enclosed are my marked comments on the empowerment zone and the CDFI papers you gave me recently for changes to assure greater corporate public involvement with these two proposals.

You asked me also to put on paper my thoughts on how the President could make these two programs part of a larger package: one that could highlight the need and the distinct advantages for selective use of corporate resources to attack community and social problems. As you recall, I attempted to lay out this concept in my editorial in Response this spring which you read.

Regardless of what happens to the two proposals in the legislative process, he could tie them to others and create a new corp~~orate initiative for America's~~ communities. The issues thus targeted would include job creation, economic development, housing, education, job training, health promotion (including substance abuse)~~, and child care.~~

It is my strong feeling that a presidential focus on these issues and their linkage to the self interest of American business could attract an impressive array of corporate executives to the White House. Cabinet members from the relevant departments and Congressional leaders from both parties should be present to reinforce the seriousness and high-level attention paid to the event and its meaning.

The objective: to motivate the movers and shakers among CEOs to use their collective power to effect community change and to demonstrate vividly that their contribution to the solution of these pervasive social problems is needed by the nation and recognized by the President and the Congress.

1001 Pennsylvania Avenue, N.W., Washington, D.C. 20004-2599 202-624-2430

I can spell out more details of such a "happening" if you wish. In addition, I can personally assure the presence of CEOs of the largest insurance companies as well as several CEOs of other major corporations.

Sincerely,

Stan

Stanley G. Karson

SGK:lrb
Enclosure

Paul D —

If Rangel insists on mandated spending, let's make sure some of it is for things we want anyway, such as:

(1) Welfare Reform — HR 11 had money for JOBS (see below)

(2) Community Policing — We're losing the \$250m we were counting on, it seems, so let's get it back this way.

These 2 provisions are also the ones most likely to survive Byrd Rule scrutiny, since they should be hard for GOP to vote against.

Thanks — BR

Bruce —

(1) I don't think we'll be able to specify in legislation where the money will go w/ "capped entitlement" under § 20 of Social Security Act. (This will leave to Sec'y HHS & Enterprise Board to resolve in RFP/NOFA challenge grant process.

(2) Wendell Primus needs to get on the same page re Empowerment Zones. His druthers (possible advice to conferees?) is to kill EZ's & use money for EITC, Family Preservation, etc.

Paul D.

File: E-Zones

June 7, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED

SUBJECT: MONEY FOR WELFARE REFORM

Here is a proposal you can put to Moynihan as proof of your commitment to welfare reform: Increase funding for the JOBS program by $250 million in both FY94 and FY95, as a way to raise the federal matching rate of 85% in states that begin early implementation of time-limited welfare.

According to his staff, Moynihan has two goals for welfare reform, which you share: 1) increase the federal match for JOBS so that states can afford to implement the Family Support Act; and 2) move toward a system of time-limited welfare. This proposal would enable us to waive the current cost-neutrality rules for demonstrations in states that want to move toward time-limited welfare.

This proposal should pass muster with the Byrd rule, which is being interpreted to allow expansion of an existing program. It would also please the governors, particularly in industrial states where the current federal match is only about 60%. A temporary adjustment in the JOBS matching rate was included in the tax bill Bush vetoed last year (although that provision did not address time-limited welfare). In the meantime, the AFDC caseload has grown to record levels, passing the 5 million mark.

If you raise this idea with Moynihan, you may have to persuade him that it isn't just a token effort on our part, but an important downpayment on welfare reform that will significantly improve the prospects of getting the sweeping reform plan we'll propose late this year. This isn't a substitute for ending welfare as we know it; it's a way both to build on the Family Support Act and to underscore that welfare reform is a make-or-break element of this Administration's agenda.

E-Zones

THE WHITE HOUSE

WASHINGTON

cc: Jose
PJW

July 20, 1993

MEMORANDUM FOR GENE SPERLING AND BRUCE REED

FROM: PAUL DIMOND

SUBJECT: EMPOWERMENT ZONES

Congressman Rangel and the interested Senate Conferees (particularly Riegle and Bradley) are considering transferring $1 Billion from the tax incentives (primarily for the 10 empowerment zones) to a "capped entitlement" which would sunset in two years. Under either approach, the language to be included in the budget reconciliation bill itself would be very spare, but the report would include much of the challenge grant process, selection criteria and substance that we had been planning to put into the authorizing legislation.

Congressman Rangel is now actively exploring placing the capped entitlement in Title 20 of the Social Security Act (an HHS block grant program that is already a capped entitlement). His approach would rely on selection criteria, Title 20's waiver provision, and the challenge grant process to give the Enterprise Board authority to award the capped entitlements to up to 30 cities with the best comprehensive strategic plans. He would continue to target the tax incentives to 10 zones but would reduce the flat wage credit from $5000 to $4000 or $3500. Bruce Reed will explore with Wendell Primus at HHS the nature and scope of Title 20's waiver provision and how it might work.

Senator Riegle is exploring a similar capped entitlement, with a menu of selections, including community policing, enterprise grants, and CDFIs. See attached outline. Senator Riegle is also exploring whether the reduced bundle of major tax incentives can be spread around to a somewhat larger number of zones than 10, say 15 to 20. (To accomplish this would require substituting an incremental wage credit for the flat wage credit).

Both of these approaches are first being vetted with the Senate Parliamentarian. Maurice Foley and Alan Cohen from Treasury and Matt Roberts from Senator Riegle's staff will be involved. I have urged extreme caution with Treasury and OMB in view of the larger budget reconciliation issues.

My personal reading of the situation, however, is that Rangel, Riegle and Bradley are moving in cooperation on this and, if the Byrd ruling is favorable on the capped entitlement, will proceed to seek to implement such an approach with the other Conferees. We will need to plan accordingly.

cc Bob Rubin

7/19

Proposal to Shift Funds from Empowerment Zones Tax Preferences to Capped Direct Spending Program for Public Investment

Background: The enterprise zone proposal that passed the Congress last year in H.R. 11 included, in equal measure, tax incentives for zone businesses and social investments for zone residents -- including resources for housing and community development, health, education, job training and community policing. The Clinton Administration has proposed a similar two-part enterprise zone proposal.

However, the House budget reconciliation bill includes only the tax incentives (at a cost of $5.2 billion over 5 years), and the Senate bill includes no enterprise zone provision.

Proposal: The proposal would shift $1 billion from the Empowerment Zones tax preferences to a capped direct spending program for public investment in the zones and other distressed areas. This spending program would sunset in two years.

The spending program would be based on what passed the Congress last year in H.R. 11.

One portion of the direct spending program ($200 million per year) would fund public-private partnership programs designed to assist distressed areas. These programs would be drafted -- to the greatest extent possible -- as modified versions of existing authorized programs.

The other portion of the program ($300 million per year) would fund an enterprise grant program for the zones. Under this program, the administrators of a zone could spend the funds on a menu of activities of the type described in programs that are already authorized. The expenditure of the funds would have to be in accordance with a strategic plan submitted with the application for the zone.

A more detailed description of the program is attached.

PUBLIC INVESTMENT FOR ENTERPRISE ZONES

Part I: Public/Private Partnership Programs ($200 million/year)

Head Start	$30 million
Community Health Centers	$20 million
Job Corps	$40 million
Community Development Corps.	$40 million
Community Development Financial Inst.	$60 million
Mobility for Work Demonstration	$10 million

Part II: Enterprise Grants ($300 million/year)

Each zone must spend 40% of its grant on crime and community policing and 15% of its grant in each of the other following categories. However, a zone may receive a waiver to spend up to 30% on any of the other categories provided that it still spends at least 20% on crime and community policing:

<u>CRIME AND COMMUNITY POLICING</u>:
Cops on the Beat

<u>JOB TRAINING</u>:

JTPA (Labor; Title II)
Conservation & Youth Corps. (Comm'n on Nat'l & Community Service)

<u>CHILD CARE & EDUCATION</u>:
Comp. Child Develop. (HHS)
Child Care Block Grant (HHS)
Literacy (ED)
Chap. 1 Elem. & Second. Educ.(ED)
Trio (ED)
Vocational & Adult Educ. (ED)

<u>HEALTH, NUTRITION & FAMILY ASSISTANCE</u>:

WIC (Ag)
High Risk Youth (HHS)
Drug Treatment Improve. (HHS)
Drug Treatment Capacity (HHS)
Drug Treatment - Individ. (HHS)
Drug Treat.-Preg. Wm. (HHS)
Emerg. Child Protect. Svs. (HHS)
Ryan White (HHS)
Homeless Family Support (HHS)
Family Resource Centers (HHS)
Subst. Abuse Prevention (HHS)

<u>HOUSING & COMMUNITY DEVELOPMENT</u>:
CDBG (HUD)
Public & Indian Housing Modernization (HUD)
Drug Elimination Grants or COMPAC (HUD)
Family Investment Crs. (HUD)
HOME (HUD)
Youthbuild (HUD)
523 Self-Help Hsg. TA (FmHA)
533 Rural Housing Pres. (FmHA)
515 Rural Rental (FmHA)
521A Rural Rental Ass. (FmHA)
Water/Sewer Grant (FmHA)
Minority/Disadv. Farmers (FmHA)
Private Business. Enter. (FmHA)
Neighborhood Reinvest. Corp.

Add to use of funds:

(2) Activities funded with enterprise community block grants must advance one of the following purposes:

(A) promoting economic development by creating or expanding businesses, removing impediments to business activity or economic growth, building on existing economic or community assets, or creating or retaining jobs for residents of the area.

(B) empowering residents of the area by connecting them to job opportunities or by promoting their ownership or management of enterprises or assets.

(C) promoting physical development by increasing the availability of housing affordable to low or moderate income residents of the area or enhancing the public infrastructure or community facilities in the area.

(D) promoting human development through activities designed to increase school readiness, lifelong learning, high level workplace skills, or workforce competitiveness.

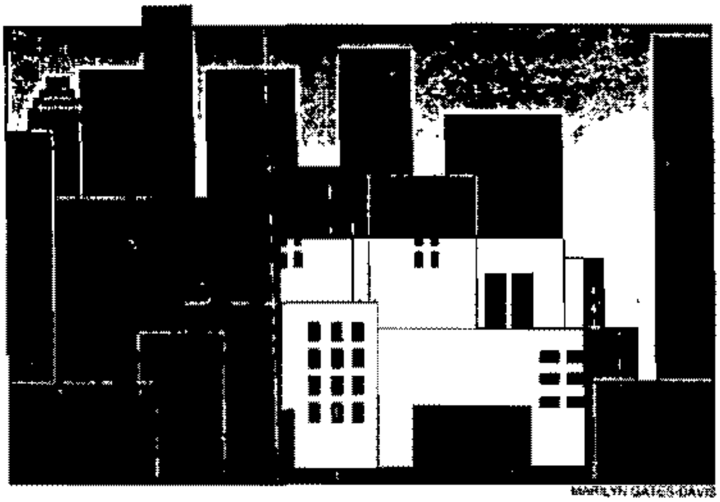
(E) increasing the safety and security of persons, property, or enterprises or preventing the use of drugs or violence.

Em - Zones

COMMUNITY DEVELOPMENT

Enterprise Zones Struggle To Make Their Mark

Clinton's plan for aiding depressed areas may prevail; bipartisan support keeps the concept alive



MARILYN GATES-DAVIS

About two-thirds of the zones would be in urban neighborhoods, the rest in rural areas and Indian reservations.

Enterprise zone legislation, Congress' most enduring answer to urban woes, is evolving once again.

Its latest incarnation has created a cadre of disgruntled lawmakers who love the idea but dislike the details. That is because so many members have their own ideas about how best to target poor communities with tax incentives for businesses and increased social services.

Three presidents have asked Congress for enterprise zone legislation. At least 56 bills have been introduced, prompting dozens of hearings. A federal enterprise zone plan actually became law in 1988, but it lacked teeth and was never carried out. Congress agreed on a more comprehensive plan last year as part of a broad tax bill, only to have President George Bush veto it.

Now comes President Clinton's turn.

Taking a page from state efforts, he emphasizes the coordination of government aid to distressed areas, rather than tax breaks for businesses that locate there. When he does recommend tax incentives, he stresses tax credits for education and training. Previous Republican proposals focused primarily on helping zone businesses raise capital.

Clinton also would severely restrict the number of zones. Previous bills would have designated as many as 300. Clinton proposes creating only 10 "empowerment zones" that would receive most of the tax breaks. He also would create 100 less important "enterprise communities." Administration officials say they want to focus most of the tax breaks on only 10 areas because that would enhance their effectiveness.

By Jeffrey L. Katz

Critics complain that the 100 enterprise communities would be little more than a ploy to win votes; they would receive few benefits. But administration officials say that misses a key element of Clinton's plan — that the government would take a more active role in coordinating economic development and federal aid in all of the designated zones.

About two-thirds of the zones would be in urban neighborhoods, the rest in rural areas and on Indian reservations. (Story, p. 1882)

Some longtime proponents of enterprise zones do not think this proposal, which includes $4.1 billion in tax incentives over five years, is potent enough to revitalize impoverished areas. But their disappointment is tempered by the realization that they may not be able to get anything better through Congress. The tax provisions were included in the House version of the huge deficit-reduction bill (HR 2264) but not in the Senate version. The rest of the enterprise zone proposal — including the makeup of a coordinating board and provisions for new federal grants — has not yet been introduced in Congress. (Weekly Report, p. 1160)

The mixed emotions many proponents of enterprise zones hold about Clinton's proposal were apparent at a recent hearing chaired by Sen. Joseph I. Lieberman, D-Conn. It featured Rep. Charles B. Rangel, D-N.Y., a liberal, and former Housing and Urban Development (HUD) Secretary Jack F. Kemp, a conservative Republican. The three cover the ideological bases from right to left, with Lieberman in the middle. They are some of the biggest boosters of the idea of targeting poor communities with federal aid and tax breaks.

Yet they were hard-pressed to say anything more complimentary about Clinton's proposal beyond that it was worth trying.

Lieberman, chairman of the Senate Small Business Subcommittee on Competitiveness, called it "a very thoughtful proposal" but seriously deficient in the number of zones and lacking in capital incentives for businesses.

Rangel said it was a shame that enterprise zones were still thought of as an experiment, considering that the administration lacks an urban policy.

Kemp, who crusaded for enterprise zones as a GOP House member and then HUD secretary, called Clinton's approach "a throwback to the top-down, paternalistic policies, which have dominated liberals' thinking on poverty since the Great Society."

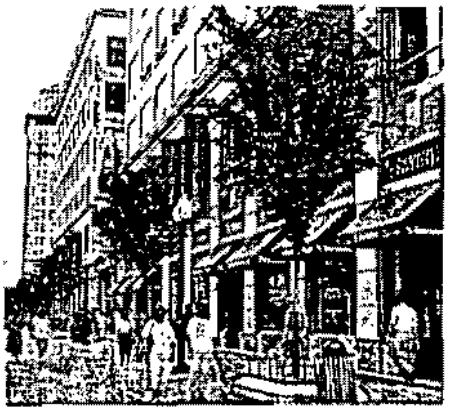
As disappointed as they were with Clinton's plan, they were even less happy with the Senate, which has no enterprise zone proposal in its deficit-reduction bill, known as the reconciliation bill. And so the future of this much-debated approach to distressed communities now rests with a House-Senate conference committee. *(Weekly Report, p. 1799)*

What are the chances that the final product will contain some sort of enterprise zone plan?

"They're much, much better than good," said Rangel, a conferee who believes that key Democrats on the Senate Finance Committee and the House Ways and Means Committee support the plan.

Whatever his misgivings about Clinton's offering, Rangel wants the plan enacted. It is time, he says, to target poverty-stricken areas with meaningful federal legislation. And no matter how many zones are created, he said, "you have to make sure they work." He does not want to add to the litany of well-intentioned but only moderately successful federal anti-poverty programs.

PHOTOGRAPHS BY JILL ZUCKMAN



In downtown Trenton, N.J., a city of 90,000, an urban enterprise zone has been in place since 1985. The zone takes up 2.3 square miles, and 120 businesses participate. Benefits they receive include a reduction in the state sales tax charged to customers, from 6 percent to 3 percent. Above, a pedestrian walkway photographed last year shows a mix of the old and new. The building at right has been refurbished.

Already on the Books

Although it is rarely mentioned, the federal government already has adopted enterprise zone legislation.

Congress had debated enterprise zones annually since 1982, when President Ronald Reagan first presented a plan to provide federal tax and regulatory relief to businesses that invested in economically depressed inner cities and rural towns. *(Story, p. 1883)*

For several years, either the House or the Senate adopted a variation of enterprise zones, only to see the other chamber balk at the provisions.

Finally, in December 1987, Congress cleared an authorization bill for housing and community development programs that included enterprise zones. It was signed into law Feb. 5, 1988 (PL 100-242).

The law authorized HUD to designate 100 zones in which state and local governments would reduce taxes, fees and bureaucracy while increasing public services to encourage economic development. Two-thirds of the zones were in cities, one-third in rural areas.

But the law provided no tax breaks and little federal money — $1 million a year for administrative expenses.

HUD developed regulations for the zones and accepted almost 300 applications from areas seeking designation. But Kemp, who became HUD secretary in 1989, decided that the law was flawed, especially because it lacked federal tax incentives. No federal enterprise zones were ever declared.

Action in the States

While the federal government debated the merits of zones in the 1980s, many states put them to a test. About 40 states authorized enterprise zones, and the 30 most active states named about 800. Typical incentives include loans and loan guarantees, reductions in sales and local property taxes for businesses that locate in depressed areas, and tax credits for hiring local employees.

Proponents argue that new federal legislation is necessary — even though its absence has not deterred state and local activity — mainly because a federal presence could lend more energy and influence. Federal tax breaks are in demand because federal taxes generally are higher than state and local taxes.

"You get more bang for your incentive buck," said Michael Allan Wolf, a law and history professor at the University of Richmond and an expert in enterprise zones.

Proponents also say that federal legislation would bring needed attention to depressed areas.

"There has been too much emphasis on the tax incentives," said Richard Cowden, executive director of the American Association of Enterprise Zones, based in Washington. More important than tax breaks, he said, is that federal legislation would "encourage greater attention on the needs of these areas by the cities and states themselves, and target federal resources more efficiently."

Cowden and Wolf say that the state efforts have evolved: Originally they were seen by some as a way to lessen government's role in poverty-stricken areas by reducing or eliminating taxes and regulations. States and localities have gotten more involved in the zones, they say, improving roads and sewers, enhancing social services, helping finance businesses and marketing the zone itself.

Clinton's proposal seems consistent, Cowden said. "It really does represent what we've learned."

Kemp, however, derides the way in which Clinton's plan applies these lessons. He warned that it would create a "zone czar" who could choose recipients of federal largess, putting a premium on political clout.

"We need to let the marketplace work," Kemp said. He argued for more broad-based incentives for capital formation, including eliminating the capital gains tax on anyone who works, saves or invests in enterprise zones.

Clinton's Plan

Clinton envisions creating an Enterprise Board made up of domestic agency Cabinet secretaries to coordinate his program.

His proposed Economic Empowerment Act of 1993 includes $4.1 billion in new tax breaks over five years. About $3 billion in breaks would be for employment and training wage credits for businesses in the 10 empowerment zones, applicable to new and existing employees. The remaining $1 billion would fund other tax incentives. About $1 billion more would be available for block grants and a community policing program.

The House accepted most of Clinton's proposal in its reconciliation bill. Clinton emphasized that "not a single dollar will go out without a coordinated strategy developed at the grassroots level."

The prospect of federal officials overseeing and analyzing local enterprise zone activity rankles Stuart M. Butler, director of domestic policy studies at the Heritage Foundation, a conservative think tank. Butler developed the idea of enterprise zones in the United States in 1979 by modifying an approach used in England.

"The premise of the whole idea is that people in the localities are more likely to be able to figure out what is going to work on their areas than somebody in Washington or somebody in the statehouse, for that matter," Butler said.

Butler does not necessarily object to the increased presence of state and local governments in enterprise zones. He just does not want the federal government much involved beyond providing tax breaks. He said federal officials ought to be "on tap, not on top."

Besides not creating enough zones or incentives for capital formation, Butler said Clinton's plan had "too much industrial policy and micromanagement." That gets to the heart of conservative criticism of Clinton's plan: The specter of federal control over local activities.

Wolf defended the administration's approach, saying federal officials ought to oversee local strategies.

"There has to be accountability," Wolf said. "They don't want to get into the business of actually running the enterprise zones. But they do want to play a role to make sure that the money is spent wisely."

The lack of capital-based tax incentives also has drawn complaints from traditional supporters of enterprise zones.

Paul L. Pryde Jr., president of a Washington-based consulting firm specializing in economic development, said the plan ought to include more incentives to help small new firms raise capital. The labor-based tax credits now in the plan are insufficient, he said, because new firms typically do not have a high enough tax liability to make the credits worthwhile.

He suggested allowing individuals to deduct the cost of purchasing stock issued by zone businesses. He also favors tax deferments on capital gains proceeds that are invested in zone firms.

Lieberman regretted the small number of zones in Clinton's plan, saying the only ones that counted were the 10 empowerment zones: "It's a policy mistake and a squandering of incentives to pour them into these 10 areas while the rest of the country ... gets nothing."

Rangel downplayed the importance of increased tax incentives, maintaining that most businesses would not expand or relocate into depressed areas without improvements in infrastructure and social services.

Rangel also said he would resist adding more zones unless more federal funds were made available.

"If these things are made national,

The House Proposal

The House version of the reconciliation bill (HR 2264) includes President Clinton's tax proposals for enterprise zones. The Senate version does not include zones. The House plan would cost about $4.1 billion over five years, including about $3 billion in employer wage credits and targeted jobs tax credits for certain businesses in empowerment zones.

The House version would do the following:

- **Number:** Create 10 empowerment zones and 100 enterprise communities for fiscal 1994 and 1995. Empowerment zones would be eligible for more tax incentives than enterprise communities.
- **Placement:** Locate six empowerment zones in urban areas, three in rural areas and one on an Indian reservation. The 100 enterprise communities would include 65 in urban areas, 30 in rural areas and five on Indian reservations. Urban zones would be designated by the secretary of Housing and Urban Development. The Agriculture secretary would designate rural zones, and the Interior secretary would designate Indian zones.
- **Enterprise Board:** Stipulate that a board made up of federal agency officials — to be established later — coordinate the designation of zones.
- **Eligibility:** Limit the size and population of zone boundaries, which would be placed in high-poverty areas. Urban zones, for example, could not have a population of more than 200,000 people.
- **Employer wage credit:** Permit a tax credit on employee wages to all employers within an empowerment zone. The credit, 25 percent on the first $20,000 of wages and certain training expenses, would apply to both new and existing employees who live and work in the zone. The credit would be phased out over four years, beginning in 2001.
- **Targeted jobs tax credit:** Expand the targeted jobs tax credit outside the empowerment zone to businesses that hire zone residents. The maximum credit would be $2,400, or 40 percent of the first $6,000 in wages.
- **Savings credit:** Apply a 50 percent credit — up to $700 — on employers' contributions to retirement plans of employees who work and live in an empowerment zone.
- **Property expensing:** Raise the amount empowerment zone businesses can write off for investing in depreciable property from $10,000 to $75,000 in the first year. For a zone business to qualify for such investment tax incentives, at least 35 percent of its employees must live in the zone.
- **Accelerated depreciation:** Allow faster depreciation for investment in buildings and equipment used by qualified empowerment zone businesses. Recovery periods would be reduced by about one-third. For example, property that normally depreciates in three years could be depreciated in two years.
- **Tax-exempt bond financing:** Create tax-exempt bonds for qualified businesses within an empowerment zone. The maximum amount would be $3 million per business per zone to a maximum of $20 million per business for all zones. Businesses in enterprise communities also would be eligible for modified tax-exempt bond financing.
- **Low-income housing credit:** Expand the low-income housing credit by 30 percent for buildings in areas within empowerment zones or enterprise communities that are considered "difficult to develop" — defined as census tracts with a poverty rate of at least 30 percent.

—Jeffrey L. Katz

Zones of Contention

Enterprise zone legislation has surfaced every year for 13 years. In 1982, President Ronald Reagan introduced a plan closely resembling a bill sponsored in 1980 and 1981 by Republicans including Jack F. Kemp, N.Y. One bill was even enacted — but did not result in any action. Here is a chronology:

1982: Reagan introduced a plan March 23, saying that federal tax breaks and regulatory relief would help create jobs in poor inner cities. The plan would have designated 25 zones annually for three years. The Senate Finance Committee included the proposal in a tax bill, stipulating that eight zones each year would be designated in poor rural areas. But House Democratic leaders opposed the legislation, which eventually died.

Reagan

Bush

1983: The Senate Finance Committee passed legislation to create 75 zones over three years, with 25 zones in rural areas. The Senate adopted the measure when it passed a deficit-reduction bill, but the plan was dropped in conference with the House.

1984: Sen. Bob Dole, R-Kan., introduced enterprise zone legislation, but it never saw floor action. Then-House Minority Whip Trent Lott, R-Miss., tried to move the legislation, but it never was reported from the Ways and Means Committee.

1985: An omnibus housing bill included enterprise zones. The House Banking Committee, which approved the bill, instructed the Department of Housing and Urban Development (HUD) to select 75 zones. Unlike previous bills, this one did not include federal tax incentives but did waive certain business regulations.

1986: In a revision of the 1985 bill, the number of enterprise zones jumped to 100, with one-third to be located in rural areas. The House attached the measure to a reconciliation bill, but conferees dropped the housing provisions. The House also added the legislation to an omnibus banking bill, which eventually died.

1987: Congress cleared a housing bill late in December that authorized HUD to designate 100 enterprise zones, one-third of them in rural areas. The bill included no federal tax breaks but relied on local and state tax breaks. The zones were to retain their designation for 25 years, with reviews every four years. The bill provided $1 million a year for administrative costs.

1988: President Reagan signed the housing bill (PL 100-242) into law in February. But no enterprise zones were ever designated.

1989: President George Bush endorsed federal tax breaks in his housing proposal. Introduced in November, the proposal advocated giving capital gains tax exemptions to enterprise zone businesses. Bush also wanted to give cities grants and insurance in exchange for relaxed zoning and construction laws in the zones.

1990: The budget summit included federal tax breaks for businesses willing to locate in enterprise zones, but the idea eventually was dropped.

1991: Lawmakers introduced 14 enterprise zone bills.

1992: The Los Angeles riots in April catapulted enterprise zones back into the national spotlight; Congress included language for them in two tax bills. Before the riots, Congress sent Bush a bill that would have created 10 urban and rural zones. Bush vetoed it in March. Congress sent another tax bill in November, including 50 zones, 25 in cities and 25 in rural areas. The bill would have provided a 50 percent capital gains cut and other credit measures. Bush vetoed that tax bill, too.

—Brad Wong

. . . unless you put in the resources to make these things work, then it's tissue-paper thin and doomed to fail," he said.

Rangel represents part of New York City, which is widely expected to get an empowerment zone, as are Los Angeles and Chicago.

Surviving Reconciliation

By most accounts some enterprise zone provisions are expected to survive the House-Senate conference on the reconciliation bill.

As with other aspects of Clinton's proposals in the reconciliation bill, enterprise zones remain important to a certain constituency — in this case, those who want to increase urban aid.

The Congressional Black Caucus says inclusion of the zones in the bill is "non-negotiable." There is little organized opposition. Senate action on the zones could be impeded by the Byrd rule, however. The rule, named for its author, Sen. Robert C. Byrd, D-W.Va., seeks to prohibit non-germane or extraneous provisions in the reconciliation bill. The zones could be considered non-germane because they are unrelated to the bill's deficit-reduction goals. If a senator raises a point of order invoking the Byrd rule, the non-germane provisions are struck from the bill unless the rule is waived by 60 votes.

"My hope is because this has been genuinely a bipartisan idea, that the Republicans who are presumably going to be making the Byrd rule objections will not object to the enterprise zones," Lieberman said.

In the meantime, he is trying to reshape the legislation by dramatically reducing the employee tax credits and limiting the size of each zone, while increasing the number of zones and the incentives for capital formation.

The mixed emotions remain. That this proposal is close to being enacted, Lieberman said, is "as if you've arrived at the promised land, and it's not quite the way they've described it for you." ■

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 <u>and</u> 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 (<u>i.e.</u>, it may <u>not</u> 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 TJTC -- account for approximately 80% of the FY94-FY98 $4.1 billion in tax incentives.

①②Notes to Gore re E. Boa

THE WHITE HOUSE

WASHINGTON

June 30, 1993

MEMORANDUM FOR GENE SPERLING AND BRUCE REED

FROM: PAUL DIMOND

SUBJECT: EMPOWERMENT ZONE AUTHORIZING LEGISLATION

I. BACKGROUND.

For the Past six weeks I have been working with Senate and House Staff on fleshing out the skeletal language in our authorizing legislation for empowerment zones, "The Economic Empowerment Act of 1993." I am at a particularly thorny sticking point and need your advice and assistance on the waiver issue.

II. SENATE

The primary issue is how to structure the waiver provision. Staff indicate that Chairmen Riegle (Matt Roberts) and Kennedy (Marsha Simon) appear willing to support an approach which gives the Congress a "legislative veto," whereby a waiver goes into effect unless Congress enacts legislation overturning the waiver in a reasonably short period of time. Staff for Majority Leader Mitchell (Kim Wallace) and Senator Sarbanes (Paul Weech) indicate, respectively, that such a waiver provision may not be able to secure necessary support in the Senate or deprives the Congress of its legislative prerogative to appropriate funds (either by formula or by category). Senate staff offered a proposal to me which would require legislative approval for waivers of any statute before the waiver becomes effective.

I believe this provision is totally inconsistent with the lead line in the President's package: in exchange for local communities agreeing on a comprehensive strategic development plan for coordinating state, local, and private resources, the federal government will provide flexibility, coordination and necessary waivers in federal programs to allow communities to implement their approved plans.

Matt Roberts and I worked privately on a third approach to implement the President's main message. It would permit waivers of statutory provisions so long as within the program purposes of the statute, but only if the Secretary in charge of the program agreed to the waiver, gave the reasons for approving the waiver, and notified Congress of the waiver and the reasons therefor.

Regular congressional oversight of the Empowerment program, including waivers, would continue; and the waiver provision would sunset at the end of four years to provide an opportunity to determine whether the approach should be continued, expanded, or curtailed.

We need to find a different process for resolving the waiver issue: e.g., a meeting separately with Senator Mitchell's staff (and Matt Roberts) at the White House and/or meetings with the key members (I would recommend separately), starting with Riegle, then Kennedy, then Mitchell....Thoughts about how to proceed? Who should be involved? How should I raise the issue to get Howard Paster's insights?

II. HOUSE.

With the assistance of Frank DeStefano and Andrew Cuomo, we worked with Legislative Counsel for Chairman Gonzales to flesh out the conceptual framework that Matt Roberts and I worked out. Although we do not have a political reading on support for this approach yet, it will succeed in the House if we can secure the support of Chairmen Gonzalez and Ford and the House Leadership.

Simultaneously, Subcommittee Chair Kanjorski has asked that we consider a "third tier" of communities beyond the 110 that would be eligible for waiver approvals, flexibility, coordination, and one-stop shopping for federal programs on a priority basis. He believes, with the President, that this is the lead line of the Empowerment proposal and should be made available to all communities that the appropriate Secretary finds have submitted a good comprehensive strategic plan for economic development. [We could limit the number to up to another 100 or or 200]. Kanjorski believes that this will also increase support for the Empowerment proposal from more members interested in seeing that their eligible local communities participate fully in such an important process of reinventing the way government works with the private sector to do business in distressed communities. Kanjorski seems willing to accept an approach where he would seek to secure support for such an amendment in the House, while recognizing that such an expansion of the waiver process would make passage in the Senate more difficult. Any differences between the House and Senate versions would then have to be worked out in Conference.

I would appreciate any thoughts you have on how to proceed in the House. I will talk with Mike Wessel and, then, Howard Paster to discuss a plan to meet with Kelsey Meek (Staff Director of House Banking), as well as Rick Maurano and John Valencia, the Chairman's other chief staff on the issue. With an introduction, I also suggest meeting with Chairman Ford's Staff Director of the Education and Labor Committee, Pat Rissler.

III. Other Issues.

A. Byrd Rule. Alan Cohen, Matt Roberts, and Maurice Foley are now engaged with the Parliamentarian on this issue. (Now, that is a lot of very intelligent, persuasive power!) It looks like they have succeeded in gaining a much more sympathetic read from the Parliamentarian for our position, although some non-substantive redrafting may still be required. Progress and promise, although no certain assurance, is the watch word for the moment. I will keep you apprised.

B. Chair of the Enterprise Board. The suggestion has been made that the VP Chair the Enterprise Board as a way of symbolizing both the importance of the interagency process and the White House commitment to making sure that coordination and one-stop shopping become a reality. It also would give the Vice-President a real hands-on platform for experiencing a reinvention process in operation. I think the idea has considerable merit, although HUD and AG may need to staff the Chair. Bruce, will you explore with the Vice-President, if you and Gene agree on the merits?

C. Process of "Introducing" Changes. I think our options are open here -- ranging from introducing a revised piece of legislation or asking the respective Committee Chairs of Banking to introduce (hopefully, with substantial co-sponsorship, including the leadership, chairs of Education/Labor and Judiciary, and other members). Again, I would like to solicit Howard's advice on this.

cc Sheryll Cashin
   Paul Weinstein

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release May 4, 1993

REMARKS BY THE PRESIDENT
IN TELEPHONE CALL CONCERNING
ENTERPRISE ZONES

The Oval Office

10:30 A.M. EDT

THE PRESIDENT: We've got L.A., Kentucky, Chicago, Baltimore, York, and New York.

Q Sounds like a good line-up.

THE PRESIDENT: Sounds like a good line-up to me. I want to thank you all for joining me today. As you know, I have a new proposal we're going to be discussing this morning that I believe is a fundamental departure from traditional programs offered by Democratic administrations and fundamentally different from the previous enterprise zone proposals offered by recent Republican administrations.

All of you represent areas of the country that, while unique, are each joined together by a common need. The economic potential of your areas, like other urban and rural communities, is still stifled because you lack the investment capital you need and a comprehensive strategy for jobs and growth. What we want to do is to help you to revive your communities economically. And our proposals for empowerment zones and enterprise neighborhoods we believe is the right way to begin.

Federal aid to these areas is certainly not new, but in the past it hasn't always worked. There has often been no coordinated strategy for using the federal money. Your growth has been restrained by a maze of federal regulations and the need to appeal to an array of federal agencies. And these factors have contributed to an unwillingness on the part of too many companies to invest in your areas.

We're trying to change all of that. We begin with a challenge: Under our program not a single dollar will go out without a coordinated strategy developed at the grass-roots level. Yet your communities enjoy immense and committed talent at that level. Our plan proposes a partnership between local organizations so that they can coordinate the use of federal, state, and local resources.

I know that your areas need investment capital, both public and private. Our proposal provides targeted investment incentives to draw investment dollars into distressed urban and rural communities. Your areas deal with a confusing maze of agencies and regulations. This proposal features a single point of contact so that the federal government contributes to rather than stifles the rebirth of your communities. We're going to streamline regulations, rules, and paperwork so that we reward initiative at the local level.

These are innovations and new approaches. They're going to result in new economic growth, opportunity and hope in areas long denied their piece of the American Dream. And just as your local communities will have a chance to participate in the planning of their economic revival, we also want to offer you a chance now to

MORE

discuss the economic challenges you face -- to discuss this new effort to participate in the revival of your communities.

I just want to emphasize two or three things here. First of all, we do propose to do something that I discussed with the mayors a few months ago, or several weeks ago, and that is to focus the limited money we have to spend here in terms of tax incentives and investments on, first of all, ten empowerment zones that will get an enormous amount of concentrated effort to see if it works -- a wage credit, credits for equipment, credits for rehabilitating existing housing -- with a bottom-up community-based strategy, and with a lot of waiver authority. We're going to set up an enterprise board that will provide communities the opportunity to come and get waivers from all these federal rules and regulations. I think that's very important.

In addition to that, we're going to have 100 more enterprise communities that will be targets for our other community investments, like the federal funds we're going to spend on setting up community policing to make the streets safer, the initiative we're going to have in community development banks, and any number of other initiatives we're going to have coming out of this government. Those 100 communities will be target areas for getting first crack at them.

So I think that this is the sort of thing that will really support what a lot of you have been doing for a long time -- cutting out a lot of the federal rules and regulations, letting you consolidate the funds that you're getting from these different government agencies and getting you the chance to develop a plan to develop your communities.

I know it's consistent with what I always thought ought to be done when I was a Governor, and I think it will meet with a lot of support out in the country among Republicans and Democrats, and I hope we'll get that kind of bipartisan support here in the Congress. I think there's a good chance that we will.

Well, I've already said a little more than I meant to. I'd like to now go to our cities and hear from them one at a time, and of course, the state of Kentucky, too. But let's begin with Los Angeles.

Mayor Bradley?

MAYOR BRADLEY: Mr. President, I'm pleased to join my colleagues in this communication with you. I congratulate you on an innovative plan that deals with the depressed cities and towns of America. I'm pleased that you've recognized that a comprehensive, yet innovative approach must be taken. It takes not only tax incentives grants, but it also takes the kind of neighborhood involvement that will make this plan truly a product of the communities that are going to be served.

I believe that it offers a great opportunity for us to show that America can work, and the cities and the towns are the heart of what happens in this country.

We have two organizations in our city that are represented here at this table with me, and I'm going to ask representatives from each of them to speak to you now. Brenda Shockley represents Community Build; and Tony Salazar represents R-LA, a product of the Rebuild LA program. Let me call on Brenda Shockley first.

MS. SHOCKLEY: Good morning, Mr. President.

THE PRESIDENT: Good morning, Brenda.

MS. SHOCKLEY: On behalf of Community Build, I'd like to commend the administration on continuing its promise to put people first. Community Build believes that the empowerment zones legislation will -- particularly the aspect of it that recognizes that community-based, community-initiated, bottom-up involvement is critical to the success of efforts particularly in the urban areas.

We'd also like to state that your appreciation, that of the administration, and the recognition of the importance of support such as child care and job training to programs that are going to allow people to have the first step of employability will be very successful and that they will foster self-help, hard work and social responsibility.

Finally, the need for federal streamlining formalized in the form of the enterprise board will, I believe, allow for coordinated efforts and the more flexible use of existing federal funds is also critical to our efforts. Thank you.

MAYOR BRADLEY: Thank you. Tony Salazar.

MR. SALAZAR: Good morning, Mr. President. And thank you very much for your leadership in bringing this initiative to the forefront. It is very much needed. The needs of the people in our cities need to be addressed. We at Rebuild L.A. look forward to your partnership and working with you and other federal agencies in coordinating our efforts and getting agencies and federal funds back to the neighborhoods and to small businesses in our city. And we very much want to thank you for being a player and we look forward to seeing you here in Los Angeles. Thank you.

MAYOR BRADLEY: Mr. President, although he's not going to speak, he will talk to the press when we finish. Parker Anderson, who is our staff person, the head of our Community Development Department, also joins us here at the table. All of us thank you. I believe that you have heard the representative voices of Los Angeles. We're eager to work with you to see that this plan not only passes through the Congress, but is implemented.

Thank you very much, Mr. President.

THE PRESIDENT: Thank you, Tom. And I want to thank Brenda and Tony for what they said. And I want to just emphasize that I think we've got the proper division of labor here. At the community level, you've got to provide for people who are chronically unemployed job training, child care, and other supports. But those needs and the opportunity to meet them are going to be so different from community to community. And that's why I think it's so important that what we do here in terms not only of new investment, but in letting you spend the money that is presently appropriated in the most flexible way will guarantee that that can be done.

And then the other thing that I want to say, particularly in response to what Tony said with the Rebuild L.A. effort, we can't expect, it seems to me, a lot of new investment in a lot of our difficult areas until we do a couple of things that send the right signals to the private sector, which this plan does.

First of all, that we appreciate the people who are there now and we recognize that they have a potential to expand employment in distressed communities. And we ought to take care of the people that are there now.

And secondly, that the government needs to take the lead in offering some significant tax incentives to people who will take an additional risk to try to give people a chance who haven't had a chance in a long time.

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And so those are the things that are part of this program. I'm very excited about it, and I'm glad you're so well organized to try to take advantage of it.

Let's go on now to Governor Jones in Kentucky. We asked the Governor to join us, because we wanted to emphasize that rural areas will be eligible to participate in both the empowerment zones and in the enterprise areas. And I know that Kentucky, like my home state, has a lot of very poor rural communities, and I wanted Governor Jones to have a chance to comment on this.

Governor, can you hear us?

GOVERNOR JONES: Good morning, again, Mr. President. I would like to, once again, thank you for having the courage to address another very, very significant problem. One thing you've shown so far is that you have no lack of courage when it comes to tackling the tough issues. And as everybody knows, when you're out on the front line attacking these issues, you take some shots. But, boy, are we proud of the way you're standing up for these tough, difficult issues.

I know the other Presidents in the past have promised federal participation in what used to be called enterprise zone legislation, and now the empowerment zone approach to dealing with our problems in depressed areas, both in the cities and in the rural areas. And we in Kentucky, of course, have had a lot of opportunity to deal with this. We passed legislation in 1982 when we became the third state in America to deal with the enterprise zone legislation. And we have had a great deal of success in dealing with it since that period of time. So we know absolutely without question that it does work.

I very much am excited about the focus that you have placed, which I think is very, very appropriate, as you've talked about change in the way government operates. And, heaven knows, we need to change the way government operates, both at the federal level and at the state and local level. I think your focus on human capital development is right on target. Streamlining the regulations, the rules, and the paperwork that have been strangling all of us for far too long is right on target. Stressing self-help and hard work and social responsibility, so that our people are willing to work in Kentucky. Our people are willing to stand up and be counted and to do what needs to be done in order to get a job and to get an education. And your willingness to let the federal government now play a meaningful role in this regard is extremely helpful to all of us.

I would also say that as we put the focus on sustainable growth, that we in Kentucky are having a national conference May the 25th to the 28th that we call From Rio To The Capitals -- the state strategies for sustainable development, a follow-up from what happened in Rio, which I think fits exactly in what you're talking about here -- in how the federal government, the state government and local governments can work together to provide the jobs and to provide the sustainable development that we need.

But because of the activity that we've had in the past working with enterprise zones or empowerment zones, we know it works and we're ready to stand with you and to participate in every way possible.

THE PRESIDENT: Well, thank you very much. I'd just like to make a couple of comments about what you said. First of all, most of our listeners may know, but some may not, that you had a very distinguished career in business before you became the Governor of Kentucky -- or got into Kentucky politics.

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One of the things that I think all of us have noticed who have been governors or mayors is that an enormous amount of the money that's appropriated for special programs is often peeled off before it finally gets to its ultimate purpose by all the various administrative layers and regulatory requirements -- they're are on the money. And one of the things that we're trying to do here by setting up this enterprise board and giving people the chance to come up with plans that would put a lot of these funds together is to make the money go a lot further. And it dovetails very well with what the Vice President is trying to do and to look -- in looking at the whole structure of the federal government and how we can overhaul it.

And we're up here now trying to cut spending dramatically and find some money to increase targeted investments in areas where we need it to create jobs and improve education and explore new technologies. And I am convinced that one of the ways we're going to be able to both cut the spending programs that ought to be cut and increase investment is to get rid of a lot of the layers of regulation and management that we've had.

The second point I want to make is about your conference coming up in May on sustainable development. One of our great challenges is to try to figure out how to improve the environment and improve the economy at the same time. And one of the clear areas of opportunity there that no one disagrees with is in the area of environmental cleanup in some of our most distressed urban and rural communities. And so I would hope that all the people on this telephone call today, as well as all the people who will hear about this program and will file applications will look very closely at some of the environmental problems in their communities and at how many people can be put to work in cleaning those up and how that can be a part of the enterprise proposal, because that's clearly something that we need to do.

Let's go on to Chicago now. Mayor Daley is in Washington today, isn't he?

MS. JARRETT: Yes, he's on an airplane right now coming to Washington. I'm Valerie Jarrett, Mr. President, the Commissioner of Planning and Development for the City of Chicago. And your new initiative is exactly what we need here in Chicago.

Our city is a city of diverse neighborhoods, each with a unique set of needs. Solutions to our complicated problems do not fit neatly into the often hundreds of disconnected federal, state and local regulations. Instead of forcing communities to take on the impossible task of tailoring real needs to the requirements of these inflexible federal regulations, you are offering communities the opportunity to use these dollars creatively and holistically, to maximize the chances of sustained community revitalization.

Last year in Chicago we adopted a holistic community-driven approach to planning and development, and already we have seen great success. In our new initiative it allows community groups to submit applications for the use of funds from four different city departments. Once we target an area, all of the other city departments work together in a coordinated delivery of services within the area.

One of our neighborhoods on Chicago's west side we've already begun to see new affordable housing, the revitalization of a commercial strip, a new library, a new park, street resurfacing and the demolition of abandoned buildings.

Unfortunately, however, Mr. President, our source of funds for this project frequently come from the federal government. If we could streamline these dollars with greater flexibility, we could speed up the revitalization of this area dramatically. We have strong community-based plans here in Chicago that will create jobs and stabilize our communities. These plans often collapse under the weight of government regulation and red tape. Your new initiative is exactly what we want to see.

I'd like to introduce to you, Mr. President, now Ted Wysocki. He is the executive director of CANDO here in Chicago, the Chicago Association of Neighborhood Development Organizations.

MR. WYSOCKI: Good morning, Mr. President.

THE PRESIDENT: Good morning, Ted.

MR. WYSOCKI: We welcome empowerment zones as a dramatic new direction by the federal government to encourage local collaboration. It's a perfect fit here with our efforts. Yesterday, Mr. President, over 600 of Chicago's most committed nonprofit groups, foundations and government officials assembled as the Chicago initiative to discuss not only youth programming for this summer, but also year-round gang intervention and job initiatives as well as multiyear processes for engaging communities in planning their own future.

I would respectfully offer three ideas that could assist the implementation of these ten empowerment zones and the 100 enterprise neighborhoods you're discussing. First, for industrial development, an issue of prime concern here in Chicago, funding as proposed by Senator Riegle in the Abandoned Land Reuse Act, on which I'm actually testifying tomorrow before the Senate Banking Committee -- this would create a new HUD program to address the high cost of cleaning up these sites that you were just mentioning.

Second, on the tax credit side, I think the real issue will be to attract equity financing for economic development real estate in these communities. I think that kind of a tax credit could encourage corporations to partner with communities, as well as, most importantly, small business to build in these zones and neighborhoods that you're talking about.

Finally, I think the role of community development corporations can be enhanced through the National Community Economic Partnership Act, which would provide grants for these local groups and their projects in these communities.

Mr. President, on behalf of Chicago's communities, I would like to thank you for your vision and your leadership. You are bringing hope to our neighborhoods.

THE PRESIDENT: Thank you, Ted, and thank you, Valerie. Let me just respond to one or two of the things that you said. First of all, the comment Valerie made about diverse neighborhoods is clearly true. I have walked the streets in every community represented on this phone call today. And I remember being so impressed in Chicago more than a year ago at seeing some new housing construction in one of the Hispanic neighborhoods from a community group that was the lowest-cost, highest-efficiency housing I had ever seen in an urban area. And there are a lot of these things going on in our country today which need to be supported not by uniform federal programs.

Secondly, I want to say that Mayor Daley was the first big-city mayor to tell me, again more than a year ago, that an enormous amount of money being appropriated by the Congress was not being well spent because of all the rules and regulations, and that we needed to focus first on getting more buying for the present dollar we're getting. And he cited me, chapter and verse, some of the things that you've mentioned today.

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Secondly, I want to say to Ted, I think we have got in our economic program and in this proposal significant incentives from our equity financing for economic development. But I will look a the Community Economic Partnership Act, and I do agree that we need to be actively involved in the cleanup of some of these sites that we can restore to industrial development in a lot of our urban areas if we can solve the environmental problems.

I see this as a really big job-generator for America over the next few years, and it's a big problem just trying to find work for all of the people who want to go to work now in our country; it's a big problem worldwide. And the environmental cleanup and rehabilitation of a lot of these abandoned areas in our urban cities and in some of our small towns and rural areas, too, I think is very, very important. I thank you for that.

Let's go on to Baltimore now. Mayor?

MAYOR SCHMOKE: Yes, sir. Good morning.

THE PRESIDENT: Are you really at the Park Sausage Company?

MAYOR SCHMOKE: Absolutely. And Ray Haysbert, the Chairman of Park Sausage, is sitting right here next to me.

THE PRESIDENT: I want you to send me some. (Laughter.) I admit that I am hereby asking for my own pork. (Laughter.) I plead guilty.

MAYOR SCHMOKE: Absolutely. Well, I'll put Mr. Haysbert on in just a second. I want to thank you very much for this tremendous proposal that you have made. You continue to operate in a fashion that's consistent with your view that cities should be viewed as centers for expanding opportunity, whereas, many of the national leaders and certainly some on the other party simply view cities as massive shelters for the poor.

But I'm also here with a gentleman named John Clinton, who is the head of the merchants association in the Park Heights community, a community that you didn't get to walk through, but one that has been plagued by a lot of the disadvantages that I know you would like to correct. But Mr. Clinton is a barber, the head of the merchant's association, a strong community activist. And he's joined by Jim Marsalak, the Executive Director of the Northwest Baltimore Community Corporation.

I want to thank you, particularly, for your focus on -- of these waiver authorities and giving us flexibility at the local level. Because, as you've seen in walking through Sandtown, Winchester neighborhoods in Baltimore, we have a lot of people who are ready and willing with great ideas at the local level. They simply need some assistance from friends at the federal government. And the Sandtown area, in particular, we have new housing, health programs, social services and things of that nature, but a missing element has been a comprehensive job development program supported by a partner at the federal level. And, certainly, the empowerment zone and the enterprise neighborhoods would help neighborhoods like that.

I want to mention one other point. As you probably know, a number of mayors, a few of us are meeting this afternoon with the Attorney General, Ms. Reno. That, I think, is important, and we hope that the Justice Department is included in this comprehensive strategy. Because we are fighting on two fronts: we're fighting the problem of crime, and we're also fighting the perception by some that our cities are just completely crime-ridden. So we need the Justice Department involved, because we know that community development and community policing go hand-in-hand, and can produce some great results. And we look forward to talking to the Attorney General about that.

Let me just turn this over to Mr. Haysbert. I think he's agreed to the sausage, and he has some other points, because his company now sits in an area that I think is a real model for what you have talked about, and it's been very successful.

Mr. Haysbert?

MR. HAYSBERT: Good morning, Mr. President.

THE PRESIDENT: Good morning.

MR. HAYSBERT: The samples are on their way. (Laughter.)

THE PRESIDENT: Thank you.

MR. HAYSBERT: We came from what was the parking lot of the Orioles Park to this state-operated Park Circle enterprise zone. And, of course, some of the criticism has been that, as a stand-alone program, it doesn't provide the total solution for the problems if the inner city. So I am delighted to see that you are delivering a hope, a constant message, by your particular program.

I've always said that when you want to do something, that you've got to hit the minds and the hearts of the people in the community, so your bottom-up strategy, I feel, will be effective. I know that when we moved into this particular zone, the community had a celebration because of what it meant to them. Obviously, we couldn't hire over 120 people, but for the community, it meant that they were not abandoned, that they were not slated for the human scrap heap, that their potential as human capital was being recognized.

I know, it's a very important part of this entire strategy and your ability to restructure government, do away with some of the handicaps that beset us businessmen, is certainly appreciated. Thank you.

THE PRESIDENT: Thank you, Raymond. I've been very impressed with the work that the Baltimore Economic Development Corporation has done there. And I know you've had a lot of attention to the work that's been done there over the last few years. It's evidence that you can take a -- if you've got some committed people and some land and some physical structures that you can really do things to put people to work back in cities and in areas where others have given up.

I think that all anybody has to do is go out there and see -- I think you've got, my staff has said, about 1,400 people working in the industrial park now, and all the different businesses generating taxes, attracting private investment. That's the sort of thing we're going to have to do. The government doesn't have enough money to solve this problem. We've got to leverage what resources we have to get private sector people like you to come in and put folks to work. And I really thank you on that.

And, Mayor Schmoke, I should have depended on you as an old prosecutor to mention the Justice Department, but I want to assure you that the Justice Department is an integral part of this project. These cities, both the empowerment zones and the enterprise cities, will be considered for priorities for community policing, for alternative punishments, for institutions like the drug court which Janet Reno helped to set up in Miami -- all things which really help communities become safer and handle their crime and drug problems better, as well as for community development banks and some of the

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initiatives that we're going to have to try to bring capital into these areas.

But the Justice Department will be a big part of that. And she's very excited about it. You'll be able to talk to her about it today. But we think there are a lot of things the Justice Department can do to make both the perception and the reality of safer streets and safer communities a big asset in developing the economy and putting people to work.

MAYOR SCHMOKE: Thanks, Mr. President.

THE PRESIDENT: York? Mayor Althaus, are you on the phone?

MAYOR ALTHAUS: I sure am, Mr. President.

THE PRESIDENT: My first -- the first night I spent on my bus trip was York, Pennsylvania.

MAYOR ALTHAUS: Oh, we remember that very well. It seems to me, Mr. President, that in this city which gave you such a warm welcome and a boost, that if anybody doubted it before, I hope they would not feel very vindicated in that welcome they gave you. Because I've been around this issue my whole 12 years in office, and I have to say that this is the best, most thoughtful, comprehensive enterprise or empowerment plan that's come out in all those years.

And I think it is that because it recognizes that the needs are more than just a few federal tax incentives, which was the proposal in years past. A new job is of no value if you have no day care. A job alone is of no value if you feel so unsafe you cannot leave your home, or if you don't have the transportation to get to it. It is the comprehensive nature that I think really makes this the very best program.

During the transition some of the members of the U.S. Conference of Mayors met with your people and what we urged was that there be a permeating sense of urban needs throughout the administration. And this is truly exactly that. It is the overarching interdepartmental nature of it that I think is so stunning.

Of course, any Cabinet that has got two mayors in it I think is a real plus. And I'm delighted today to deliver to you the endorsement and the very strong support of the United States Conference of Mayors for this. It is just a superb program.

With me are two individuals -- one of whom I'll ask to make a comment. But first there is a business leader named Robert Lucas, who owns Classic Caramel Company. Now, I have to tell you, Mr. President, he makes a candy -- I think he named it kind of as a joke -- it's called dork candy, but Henry Cisneros, I'm told, loves it. So after your pork we're going to send you some dork candy. (Laughter.)

THE PRESIDENT: Dork in Washington -- that's another word for -- they'll think I need that. (Laughter.)

MAYOR ALTHAUS: Well, maybe I'll send some up to the other end of Pennsylvania Avenue then. But Bob has stayed in the inner city. In the last three years his company has increased its hiring 65 percent. In partnership with the city, he has been rebuilding the housing around his factories simply because it is believed that it is neighborhood, too, and as the neighborhood goes, so goes his business.

: . The other gentleman is Bobby Simpson, is executive director of the Christmas Addicts Neighborhood Association. And his housing CDC has been rebuilding housing throughout our community through the neighborhood where I grew up, I have to say. But they've also been building lives, rebuilding lives through a sense of neighborhood responsibility. And he has been laboring in this neighborhood, our neighborhood, for over a decade, and he's been looking for a partner. The city's been there with him, but he's been looking for another partner, and I think he's found it now. And I want to ask Bob Simpson to comment.

MR. SIMPSON: Good morning, Mr. President.

THE PRESIDENT: Good morning, Bob.

MR. SIMPSON: I think like millions of other Americans, I want to, first of all, thank you for keeping your campaign promise to help the inner city. I think this program that you have is a very, very workable program. But I must tell you that we in York have somewhat of a jump-start on you.

We started a program similar to this about 10 years ago, and that was to get the local business and the local people involved with settling and resolving their own problems. And to a large degree, we've been very successful at that. We took a drug-ridden area over 10 years ago and turned 125 houses into decent, affordable houses. We took 785 unemployed and unemployable people and put them in jobs.

The crucial point that I'd like to make is on the day care. We have a day care center that we're very, very proud of where 90 percent of our day care kids are on honor rolls of their schools. The other point that I'd like to make that you had spoken to under your proposal is cutting the red tape. I think that is a key to any proposal that comes down, and that's a key to the success in the city of York. We got rid of the red tape, implemented the program from the grass-roots level. We've done a lot with little. And with think with your help, we can do much, much more. And I just again want to thank you, and I appreciate your effort and your commitment to the inner cities.

THE PRESIDENT: Thank you, Robert. You know, I think you might be able to be a model for what we're trying to do in some other cities. But I'm sure that this works.

A few years ago as Governor, I set up a program quite similar to this in our poorest counties. And I required all of them to come up with community-based development plans and then we worked hard to try to make sure all the resources of the state were put at their disposal. And we even got the federal agencies involved. But I always had the feeling that we could have done so much more if the federal government had been able to fully join our efforts. But I'm very impressed by what you've done there.

And I want to say a special word of thanks to you, Mayor Althaus. You know, we find, I think, that partisan differences tend to evaporate the further you get away from Washington. And when more people get down to the grass roots and have to face each other across the table and deal with real problems, it's obvious that there are certain things that work and certain things that don't, and people tend to work on what works.

And I can't tell you how much respect I have for the leadership you've given the U.S. Conference of Mayors and the willingness that you have expressed to work with us in trying to find American solutions to these problems. I am convinced that at the very basic human level we need to make a departure from the approaches of the past. And you've been willing to do that and I just -- I take my hat off to you. And I hope that we can do that more and more and more on all these problems, because a lot of these problems are America's problems and they don't have a partisan label after them. And I think if we'll just take -- all of us take our blinders off and roll our sleeves up, we'll get a lot further. And I really appreciate you.

Thank you.

MAYOR ALTHAUS: Mr. President, thank you. I have to say, the partisanship in Washington is not at your end of Pennsylvania Avenue right now. It's really not. It's been a joy working with you.

THE PRESIDENT: Thank you, Mayor.

New York?

MAYOR DINKINS: Yes, sir.

THE PRESIDENT: Hello, Mayor.

MAYOR DINKINS: Mr. President, I have several people with me, one of whom I'll ask to say a comment in a minute. I have Ron Shelp, who is the President and Chief Executive Officer of the New York City Partnership and the New York City Chamber of Commerce in Industry. The Partnership was founded back in '79 by David Rockefeller and other business leaders to tap the energy of the business community on a range of public policy issues, including economic development and affordable housing and education and jobs. And we worked very closely together. They've been with us on international trips as well as demonstrating a lot of concern for local problems.

There's David Jones, who is the President and Chief Executive Officer of the Community Service Society, one of the oldest community development agencies in our city. Comprehensive in its programmatic thrust, CSS, as we call it, provides direct services to underserved communities and is a formidable advocate for progressive social policies at both state, city, and federal levels, and provides technical assistance to grass-roots neighborhood organizations. I'll ask David to say a word in a minute.

I would want you to know that in the room also are a couple of my deputy mayors, Barry Sullivan, a lifelong banker who, upon his retirement, we induced to come and work for us as a deputy mayor for finance and economic development. And our newest deputy mayor, Dr. Joyce Brown, who is an educator of some 25 years' experience who is now deputy mayor for policy and community affairs. So I'm pleased that they're here.

Mr. President, I want to commend you, as my colleagues before me have done, for what I think is very creative leadership, so sorely lacking in Washington over the last dozen years. And we in New York City really know. We have suffered greatly because of the abandonment of the urban centers by Washington heretofore.

I want to say that not only are you providing greater leadership, but you've put together a great team. Bob Rubin has been enormously responsive and receptive to our efforts, and Henry Cisneros -- you've got a mayor, so you know that you're doing real well there. And you've got a good New Yorker in Andrew Cuomo. And, of course, Donna Shalala. And so I am confident that you've got the kinds of people to put this together.

And much has been said of community policing. And as perhaps -- I know you know that the foremost proponent of community policing, perhaps the expert in the nation, is Dr. Lee Patrick Brown that you've now tapped to head up your drug effort. And he is somebody who understands full well that it's not just law enforcement, but treatment and education that have to go along with it. So I'm delighted with this new important initiative. As you know, my colleague, who is the dean and delegate of the New York state congressional delegation is very interested in this area and I know is working closely with you. I make reference to Congressman Charles Rangel.

We've got in our city some initiatives that we think fit very well with the kinds of things you're talking about. One is what we call Communicare. We take health clinics and make primary care centers of them. It provides not only better care, but at a lesser cost. We've got what we call beacon schools, where we take the school buildings that are there anyhow, and now we keep them open until 11:00 p.m. or 12:00 p.m. at night, six and seven days a week, with programs for young people and adults, funded by the city but run by not-for-profit community organizations.

We're very proud of our community policing. As your new Attorney General will tell you, the FBI reports that crime is down in the seven major FBI index categories in New York for the first time in 36 years. And we attribute that to community policing that Lee Brown did for us.

We have what we call business improvement districts, where business people sort of tack themselves to the areas. We know that these kinds of things can assist what you're talking about, and I believe that your empowerment initiative is really what one might call the vanguard of an urban policy. And I think that if we make certain the specific menu of business incentives and social service programs are meaningful enough to do some good, we will be making giant steps.

I know you've permitted me to talk overly long, so I won't say more, except to say that we in the city of New York can provide a laboratory for any and all of these kinds of things that are at the forefront of this effort. I want to commend all of my colleagues that have participated in this effort and to thank you, Mr. President.

May I present now, David Jones of Community Service Society.

MR. JONES: Mr. President, nice talking to you once again. I just want to say a couple of things from the perspective of not-for-profits and community-based organizations. I think your bottom-up approach is brilliant, and I think it's what's going to be needed to bring this change about in these inner-city neighborhoods. I think you should also be aware, however, that community-based organizations have suffered along with the communities they have served. And they're going to need technical support and support from your government agencies to provide the kind of strategic planning that you envision in your plan, as well as the kind of oversight that you're talking about. But I think it will be seen as a great movement for community-based organizations and the poor people they're trying to serve.

I think, obviously, time is up with the national apprenticeship program and primary health care reform, patient reform and a new structure for volunteerism and a new approach to narcotics control are all going to be light-years ahead of anything that's come down in nearly a decade. And I hope because it's so new, that you, yourself, attempt to go into some of these communities to try to get your message across. Because I think I agree with Dr. Wilson, Julius Wilson, that we're losing working- and middle-class people from these communities, and they need a ray of hope in order to stay on and continue the fight, so these communities can revitalize themselves.

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Thank you for the opportunity to make our comments here.

MAYOR DINKINS: Mr. President, thank you very much.

THE PRESIDENT: Thank you, Mayor, and thank you, David Jones.

Let me just comment first on what Mr. Jones said. I think we do have to provide some assistance to build up these community-based, nonprofit organizations. And I do think the national government has to take the lead in health care, in trying to put together the kind of system that will work on job training and apprenticeship programs, as well as trying to take a little different direction, as you know I feel we should, on the drug front. And that's one reason I asked Lee Brown to be the drug czar.

But I'm also convinced that if we do this, that building these things at the grass-roots level and having everything driven by that is the only way to ever get anything done, in my opinion. I think -- you know, we've got to help people to help themselves, and that's what this whole thing is about.

The other point I wanted to make in response to what you said, Mayor Dinkins, is, first of all, thank you for the compliments on the people in my administration. Andrew Cuomo had a lot to do with putting this initiative together, and he's sitting here in the Oval Office with me -- actually, he's standing in the back, so he grew about four inches when you were bragging on him in front of America.

MAYOR DINKINS: Very good.

THE PRESIDENT: And I thank you for that. And let me again once again emphasize that I am convinced that the experience of New York and community policing demonstrates beyond anything I could say that if we can put these programs in place in all the major neighborhoods of this country that have crime problems we would immediately make them, not only more liveable and more attractive, we would make them far more apt to get private investment.

This is a huge economic issue as well as a personal security issue. And that's why we've just got to wrap the Justice Department and crime control initiatives into this whole effort. If we don't do it we can't be successful in some areas and if we do, of course, the flip side is that we can.

I want to thank all of you so much for giving me a little of your time today and for your support of this initiative. I hope you'll talk to your colleagues across the country, to the members of Congress, and again reach out across party and other lines and say this is something that will be good for America. I need your help now to pass it and I'm ready to go to work to do that. Thank you very, very much.

MAYOR DINKINS: Thank you, Mr. President.

THE PRESIDENT: Good-bye.

Q Mr. President, now that you've had your -- what changes do you plan in the White House staff to make your administration more effective?

THE PRESIDENT: Keep in mind that, before you ask that question, this administration is the only one in 17 years to pass a budget resolution within the legal time limit. We have put -- nearly as I can tell, we have put more major initiatives out there in 100 days than any of my recent predecessors, and we're working on some

THE WHITE HOUSE

WASHINGTON

May 24, 1993

MEMORANDUM FOR TOM DALTON, DIRECTOR
ARKANSAS DEPARTMENT OF HUMAN SERVICES

FROM: Carol H. Rasco, Assistant to the President for Domestic Policy

SUBJECT: Empowerment Zones

I have asked Bruce Reed and Paul Weinstein of my staff to expect a call from you to discuss the referenced subject. They can be reached at (202)456-6515. Please let me know if I can be of any further assistance to you.

Thank you.

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 <u>and</u> 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 ESOPs 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 75% 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.

COMMUNITY EMPOWERMENT THEMES

I. HUD PRESENTATION

A. Three Themes Emphasized

1) Economic Lift

Making Work Work
Linking Education, Training and Employment
Making Housing a Platform for Economic Opportunity
Rebuilding the Metropolitan Economic Base

2) Community (e.g. bottom up rather than top down strategies; fundamentally changing the way government does business; encouraging comprehensive solutions to local problems; making federal programs more flexible and responsive to community needs)

Supporting Community Solutions
Encouraging Economic Diversity in Communities
Rebuilding the Community Economic Base

3) Combat Destructive Behaviors

Reducing Spatial Separation by Race and Income
Balancing Rights and Responsibilities
Giving Every Child a Fair Chance
Restoring Sanity to America's Streets

B. Structures and Procedures Proposed to Meet these Goals

Processes for Changing the Way Government Works: coordination and consolidation of agency programs across jurisdictional boundaries; deregulation of relevant programs; and encouragement of interdisciplinary, community-based solutions

A cabinet-level interagency task force of all key domestic agencies: to force the coordination process; identify resources; manage coordination; and replicate what works

II. OTHER RELEVANT THEMES (FROM THE CLINTON CAMPAIGN AND OTHER AGENCIES)

Themes that distinguish the Clinton Administration from past approaches

A. Bottom-up Planning and Accountability

Unleashing Local Innovation
Pragmatic Focus on What Works
Willingness to Eliminate Programs that Don't Work
Built-in processes for evaluating what works

B. **Empowering Communities and People**
Mobility – Physical, Economic, Social
Strengthening both People and Places

C. **Rewarding Work**
Making Work More Attractive than Welfare
Job Training Availability
Incentives for Private Sector Job Creation
Expanding and Fostering Business Ownership by Residents

D. **Family**
Children and Adolescents
Parenting Support -- Jobs for Parents, Daycare, Parenting skills

E. **Community Values**
We are all in this together

Reed
File:
E-Zones

THE WHITE HOUSE

WASHINGTON

May 10, 1993

MEMORANDUM FOR DISTRIBUTION

FROM: SHERYLL CASHIN
National Economic Council

SUBJECT: Community Empowerment Policy Meeting

Attached is the feedback we have received thus far from agencies on the assignments that were given at the last meeting. I have also attached a memorandum that I sent to you on Friday which summarizes the assignments.

The follow-up meeting will take place tomorrow, May 11, 1993 at 7 p.m. in Room 324 OEOB.

I would appreciate receiving all agency feedback by tomorrow. Tomorrow, I will fax additional materials from other agencies as well as a meeting agenda. We sincerely appreciate your insights and commitment to this effort.

If you have not already done so, please call me at 456-6410 to confirm who will be coming from your agency.

THE WHITE HOUSE

WASHINGTON

May 7, 1993

MEMORANDUM FOR DISTRIBUTION

FROM: SHERYLL CASHIN
National Economic Council

SUBJECT: Community Empowerment Policy Meeting -- Follow-up

Several agencies have called and asked for a reprieve until Monday on the assignments that were made at the Tuesday, May 4 meeting. Consequently, I will try to send everyone a package of follow-up comments on Monday afternoon. The following is a summary of the assignments:

1) Identification of your agency representative for the Enterprise Board;

2) A one-page summary of new or existing agency initiatives that might be included in a Presidential speech on community empowerment and that will be implemented no later than FY 1994;

3) Comments or suggestions on thematic directions for the Clinton Administration on Community Empowerment, including responses to Secretary Cisneros' presentation; and

4) Suggestions on how the work of this group should be structured.

The next meeting is still scheduled for Tuesday at 7 p.m. in Room 324 of OEOB. The same persons who participated last time should plan to attend. You will receive a meeting agenda on Monday. Please feel free to call me if you have any questions. The attached distribution lists the persons who attended the last meeting.

cc:

Carol Rasco
Bob Rubin
Bowman Cutter

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

MAY 7 1993

TO: Gene Sperling

FROM: David Ellwood DE

Subject: Comments Development Initiative

1. Community Development. We want to reiterate how pleased and impressed we were by the overall perspective and approach of Secretary Cisneros' presentation. We were especially pleased by the emphasis on values, the stress on community, the strong reference to economics, and the recognition of the need to link place-based policies, including housing and community infrastructure, to services, education and other dimensions. We are particularly excited about the possibility of demonstrating the efficacy of combining a coordinated array of initiatives in specific or individual neighborhoods.

In terms of themes or values, we would strongly suggest adding family, as discussed at the meeting. If anything, we would emphasize even more strongly that work should always be more rewarding than welfare. This ties to the critically important theme of self-sufficiency, which in turn ties to the theme of responsibility. In general, we should try to keep the buzz words down to a minimum. Empowerment is important, provided it is correctly defined, but jobs, housing, schools, and health care resonate instinctively with people.

As a stand-alone product, we believe the materials provided at the meeting can serve as a guide for planning and developing concrete actions. The specific purpose and use of the document is unclear, but judging from the content, it is our assumption that it will be released as a public announcement outlining the President's vision. To the extent that this is true, we have some concern that parts of the paper are very vague and lack sufficient detail to respond to the kinds of questions that will be generated by its release (e.g., How much new money is being identified in support of this activity?)

The document embraces a theme of community commitment and a coordinated federal role; however, a greater emphasis on the necessity for partnership/commitment among the all players (i.e., citizens, the private sector, service providers, the community, local, state, and federal government) seems appropriate. For example, stat es can and should help, and promising public-private partnerships are in progress in some cities, e.g. Atlanta, Kansas City, and Austin.

From an implementation standpoint, we suggest consideration be given to several alternative approaches: 1) supplementing and reforming incrementally our current programs/processes by forming clusters of programs around topical areas (e.g., preventive health and primary care, family support) and provide technical assistance to communities to make more effective use of the program resources; 2) sponsoring meetings with government, private sector, and community representatives to define area specific needs, barriers and solutions; and 3) developing more comprehensive solutions entailing systematic change in federal programs and processes, more globally.

In a more narrow context, the goal of linking health care reform to the needs of local communities, although laudable, has practical considerations that may not be applicable in the overall national health care framework being developed. However, as a part of the reform efforts, health services provided at the local level and funded by HHS (e.g. Community Health Centers) is relevant and must be responsive to community needs. We also recommend that health services targeted at the new empowerment zones and enterprise neighborhoods be coordinated with the targeted approaches being developed under health care reform.

2. HHS Designee for the Enterprise Board. We understand your question to be who is the one person to represent the Secretary on the Board in her absence, and will respond to that early next week. We want to continue to have Peter Edelman, Mary Jo Bane and me all serve as members of the working group.

3. Items to supplement the Economic Empowerment Act. We have identified seven activities to support this Act that we will undertake. A discussion of these is attached.

- o Drug abuse prevention and treatment
- o Head Start/school health
- o Preventive health/primary care
- o Support services in or near public housing
- o Employment in the health care sector
- o Service planning and coordination
- o Welfare reform

In addition, we think any HHS-funded project that happens to be located in an empowerment zone or an enterprise neighborhood should be potentially included in the coordinated plan for that area. Similarly, other grant programs could give priority to grant-making in the designated zones. Thus, besides the seven items listed, there may be potential involvement for community action agencies, runaway youth programs, seniors programs, family preservation programs (when the legislation is enacted and funded), social service programs funded under Title XX of the Social Security Act, community health centers, child care programs, and community mental health centers. In particular, we will consider how our community service and development programs administered by our Administration for Children and Families can be integrated with the activities under the Act.

4. Suggestions for Subgroups. Some relevant "subgroups" already exist on an interagency basis or are about to. Examples are health care reform and welfare reform. In addition to those two HHS-related groups that already exist, HHS should be represented on any subgroups that relate to human services in its various aspects, or work on identifiable groups such as children, youth, or the elderly on a cross-cutting basis. One subgroup that might be created would be one that looks at linkages between services of various kinds and other institutions such as schools or public housing projects.

Attachment

Community Development and Empowerment

In support of the NEC request, we have identified HHS activities that could be included in the economic empowerment strategy. Our ability, however, to specifically designate component programs depends on the final strategy planned for implementing this initiative.

Approach

We envision two possible funding approaches for the initiative. One alternative is to consolidate funds and issue a single announcement that covers all designated program authorities, and the second is to continue separate funding mechanisms, but give priority in individual program announcements (for selected programs) to grantees in the designated zones. This could be preceded by a single announcement identifying the included programs. Each approach has inherent degrees of constraint and flexibility impacting us (HHS) and the eventual grantee.

Contributing to a consolidated funding vehicle would require a reprogramming action for the encompassed programs, change in authorizing legislation to allow a single and consolidated grant, or an addition to the President's FY 1995 budget. We are concerned that such an approach is not practical, as our ability to achieve similar flexibility in the past has not been successful. On the other hand, we have been able to provide priority designation with some degree of success for certain initiatives. Thus, we support an approach that is congruent with our current authorities as the quickest way to implement the strategy.

Potential HHS Involvement

We have identified seven areas where HHS assistance could be available for inclusion in the economic empowerment strategy. They are:

- o Drug abuse
- o Head Start/school health
- o Preventive health/primary care
- o Support services in or near public housing
- o Employment in the health care sector
- o Service planning and coordination
- o Welfare reform

The rationale for our selection of these areas included, among other criteria, programs that have increased funding proposed in the FY 1994 budget. The availability of HHS resources is, therefore, dependent upon what is finally appropriated by the Congress for the programs/activities identified below.

A brief synopsis of each area follows.

Drug Abuse

There are two programs that provide opportunity for support for drug abuse prevention and treatment in the empowerment zones. A total of $8 million in FY 1994 funds could be made available, $6 million in the Treatment Capacity Expansion program and $2 million in the Community Partnership program.

The Treatment Capacity Expansion program provides funds to expand the availability of drug treatment services in areas of needs as identified in State needs assessment data and statewide treatment plans. Funding priority for this program is being given to expand services to high-risk populations, including racial and ethnic minorities, pregnant and postpartum women and their substance-exposed infants, women and children involved or at risk of involvement with the child welfare system, the homeless, residents of public housing, and adolescents.

The Community Partnership program provides funds to assist communities in implementing coordinated, comprehensive, community-wide alcohol and drug prevention systems. Priority for this program is to support strategies for reducing alcohol and tobacco products by those to whom it is unlawful to sell such products.

Head Start/School Health

The Department is in the midst of a large expansion of the Head Start program that serves pre-school children. As Head Start expands, we are working carefully to both increase Head Start enrollment and improve program quality. We also are working closely with the Department of Education to improve coordination between Head Start and education programs, in particular to enhance the transition from Head Start to school. HHS is currently funding 32 Head Start transition projects to improve the transition of Head Start children to school and to demonstrate effective models for providing supportive services through the early years of a Head Start child's school education. Within the context of the Head Start expansion, we will address how to expand Head Start within the geographic areas identified as part of the empowerment initiative, and the possibility of giving priority to Head Start grantees within these zones for additional Head Start Transition grants, or other funds, to improve the linkage between the Head Start grantees and the local public education system. Also, for the selected zones, we could support more comprehensive services such as allowing 0-3 participation.

We also will examine our ability to provide technical assistance, and possibly some funding, to enhance health activities in public schools in the zones, for example AIDS education.

Preventive Health

The Department, through educational activities, grants, and contracts, promotes preventive health measures, including access to primary care; and prevention of sexually-transmitted diseases, other diseases, lead-based paint poisoning, HIV/AIDS, and tuberculosis. The

President's FY 1994 budget includes considerable new funds for preventive health grants to state, local and other entities. Funding priority for these activities could be given to programs located in economic empowerment zones. The following are candidate programs for inclusion of some portion of increased funding in the FY 1994 budget.

- o Childhood Immunization
- o Sexually Transmitted Disease
- o Tuberculosis
- o Violence Prevention
- o Lead-based Paint Poisoning Prevention
- o Breast and Cervical Cancer Screening
- o HIV/AIDS Education
- o Community Health Centers
- o Migrant Health Centers
- o Maternal and Child Health

Employment In The Health Sector

We can provide some employment opportunities in the empowerment zones. First, we could make available job and job training positions at our Community Health Centers, Maternal and Child Health Centers, and other health facilities in the empowerment zones. Since we are also considering this in planning for the National Service Initiative, we suggest that the two initiatives be coordinated. Through joint planning with the National Service effort, more jobs might be made available in the selected zones.

Second, we fund a program -- the Job Opportunities for Low-Income Individuals Program -- that provides funds to create new employment and business opportunities for certain low-income individuals through the provision of technical and financial assistance to private employers in the community. Ten projects are funded each year with a budget of $5 million. Priority could be given to grantees in the empowerment zones.

Linkages to Public Housing

For urban areas, we will consider placing support services in or near public housing sites. Such services will include: drug treatment; primary health care; and Head Start. We understand that HUD is planning an additional $10 million in FY 1994 to expand the number of Head Start projects at housing sites and will be providing the funds to HHS. We will work with HUD to give priority to the empowerment zones.

Service Planning and Coordination

HHS administers many programs that fund assistance and services to people--welfare payments, health care funded by Medicaid, primary and maternal and child care provided by clinics, immunization of children, drug abuse and mental health treatment, support services for families, assistance for homeless persons, Head Start, child care, education to help prevent at-risk behavior, etc.

We could offer empowerment zones help to more comprehensively plan and coordinate human service/assistance delivery with economic development activities. For example, we could either encourage or require our local grantees -- such as Community Health Centers, and Head Start projects -- to participate in such planning. Programs administered by states pose more of a problem, but this could be addressed in the design of the economic development initiative by having states agree to participate up front when a geographic area is designated to be part of the initiative.

We also could provide technical assistance in plan development, expedited review and approval of waivers of certain program requirements that interfere with service integration, and provide some financial assistance in planning. Specifically, we have $3.8 million in our FY 1994 budget for grants for development of integrated service strategies.

Welfare Reform

We are undertaking a major examination of the various welfare programs in support of restructuring and reform. Over the next few months, we will identify topics for demonstration and experimentation in selected areas. We will consider the empowerment zones as potential sites for such activity. One potential is the Community Works Progress (CWP) demonstrations that provide employment-related services to non-custodial parents who are employed -- should this program receive FY 1994 funding.

U.S. DEPARTMENT OF COMMERCE URBAN INITIATIVES

The Department provides both immediate and long-term assistance to companies and individuals in distressed urban areas.

IMMEDIATE ASSISTANCE

The Minority Business Development Agency's 105 Minority Business Development Centers and Mega-Center offer one-on-one technical assistance to minority companies in distressed urban communities.

The Economic Development Administration (EDA) Public Works program provides technical assistance, revolving loan funds, and planning and infrastructure development grants in distressed cities across the country.

EDA's Sudden and Severe Economic Dislocation program provides short-term revitalization grants for cities that have suffered severe economic trauma (e.g., Los Angeles after the riots.)

EDA's Defense Adjustment program provides technical assistance and project funding for urban communities recovering from base closings and defense cuts.

The International Trade Administration's 47 district and 20 branch offices provide one-on-one export counseling and data base services to small and disadvantaged firms in America's cities.

The National Institute of Standards and Technology's (NIST's) six Manufacturing Technology Centers help urban businesses adopt state-of-the-art manufacturing techniques.

The Economics and Statistics Administration's economic and demographic data helps community leaders shape their initiatives.

The U.S. Travel and Tourism Administration's urban initiatives attract foreign and domestic tourists to America's urban sites.

LONG-TERM ASSISTANCE

The NIST Advanced Technology Program helps small firms develop new technologies and products.

The NIST Research Technology and Applications Program helps firms access technology developed at federal laboratories.

The National Technical Information Service (NTIS) provides a single source for Federal technical and other information. NTIS can provide a single source for information on urban financing sources and assistance programs.

United States Department of Transportation
Current Urban Initiatives

HIGH SPEED RAIL

On April 28, Transportation Secretary Federico Peña unveiled the Administration's comprehensive, five-year $1.3 billion high speed rail initiative. The Secretary characterized the plan, which will promote a strong, technologically advanced passenger rail system, as important to relieving highway and airport congestion in intercity corridors around the country.

The $1.3 billion program would fund investment in rail corridors, as well as development of magnetic levitation prototype technology. This federal investment is expected to generate a total of $2 billion in investment in high speed rail infrastructure, that includes matching state, local and private funds. This is the first such program of federal financial support for corridors outside the Northeast Corridor that will ultimately allow speeds of up to 150 mph, and target projects that serve two or more major metropolitan areas that are no more than 600 miles apart.

There are five priority high speed rail corridors that are eligible to seek funding through this initiative:

- Chicago to St. Louis, Detroit and milwaukee
- Miami-Orlando-Tampa
- San Diego-Los Angeles- Bay Area and Sacramento via San Joaquin Valley
- Eugene-Portland-Seattle-Vancouver, B.C. in Canada
- Washington, D.C.-Richmond-Raleigh-Charlotte

Also, an existing New York state high speed corridor (New York City-Albany-Buffalo) is also eligible.

DOT IDENTIFIED TRANSIT PROJECTS

On May 5, Secretary Federico Peña will release a DOT report to Congress that recommends allocating over $650 million to 16 new transit projects affecting 10 cities, two metropolitan areas and two commuter rail systems. He will emphasize how the Clinton Administration will be a partner with American cities in providing new transportation infrastructure and revitalizing the nation's commitment to mass transit.

This list of projects identifies where the funding for priority new starts and major expansions of transit systems should be targeted in FY94 appropriations. This is the first time in over a decade that DOT submitted such a report in a timely fashion. The law requiring submission of this report is in section 3(j) of the Federal Transit Act. The list of projects to be announced tomorrow were selected because they are ready-to-go in FY94 and are cost-effective for the community they affect. These projects also have strong local financial commitments.

DoL / ETA'S PROGRAMS SERVING URBAN AREAS

JTPA Title II Programs

- serves disadvantaged adults and youth (year-round and summer)
- adults - provides job training, supportive services and job placement
- youth - remedial education, dropout prevention and recovery, skills training, work experience and job placement
- 40% of the total funding goes to the 100 largest cities

JTPA Title III Programs

- provides training to workers who have been laid off, long-term unemployed, self-employed farmers and ranchers
- 62% of the national discretionary funds (National Reserve Acccount) this year have gone to urban projects

Job Corps

- provides residential living and comprehensive education, job training and supportive services (including health care) and placement assistance for disadvantaged youth ages 16-24.
- 54 out of 108 Job Corps centers serve urban areas

Youth Fair Chance

- targets funds directly into high poverty communities within inner-city and rural areas
- provides comprehensive set of initiatives aimed at youth growing up in areas of 30% or higher poverty
- 10 of 11 current demonstration sites are in urban areas
- Administration's FY 94 Budget calls for $25 million for this program and the bulk of these funds will go to urban areas

Employment Service

- Every major city has several Employment Security offices that provides employment services, unemployment insurance benefits or both.

EXECUTIVE SUMMARY

TREASURY INITIATIVES RELEVANT TO AN URBAN AGENDA

Senior Treasury officials and staff have been extensively involved in the design of the Administration's Enterprise Zone and Community Development Bank initiatives, and expect to continue to play an active role in promotion of the proposals in the Congress and in implementation of enacted programs. These proposals are well known to the Working Group and should not need description here.

TAX INITIATIVES

Treasury is directly responsible for the Administration's revenue proposals, three of which have special promise for promoting economic activity in urban areas:

Low-income housing credits. The Administration has proposed that the tax credit for investment in new or substantially rehabilitated low-income housing be made permanent, effective from the date of its expiration on June 30, 1992, under current law. Although state and local authorities are responsible for allocating to investors shares of the annual cap on the amount of the credit available for each state, and no specific federal targeting provisions require that the credits be focused on distressed urban areas, it is likely that the actual allocations of credits are concentrated in low-income areas because that is where the demand for such subsidized housing is strongest.

Targeted jobs credit. The Administration has proposed that the targeted jobs credit be permanently extended and that eligibility be expanded to include youth apprentices beginning work after December 31, 1993. Though the jobs credit is targeted to disadvantaged individuals rather than to distressed urban areas, its benefits have the potential for being concentrated in troubled urban areas because they are the locations where individuals in the targeted groups are concentrated.

Small-issue manufacturing bonds. The authority of state and local governments to issue tax-exempt bonds in amounts of $1 million or less if 95% or more of the proceeds are used to finance manufacturing facilities or equipment expired on June 30, 1992. The Administration has proposed that the authority be permanently extended. Although the targeting of these bonds is up to the states and localities, if they do target these issues to urban areas, this initiative could be characterized as relevant to an urban agenda.

Two Administration tax initiatives cannot be viewed as relevant to an urban agenda in their present form because they would provide the same incentives for small businesses wherever they locate, but they could be modified to provide enhanced incentives for small businesses in urban areas:

Small business investment tax credit. This proposal would make a temporary credit of 7% available for property placed in service by a small business before December 31, 1994, and a permanent credit of 5% for property placed in service thereafter.

Targeted capital gains exclusion. This proposal would allow investors holding stock in a qualified small business for at least five years to exclude 50% of gains realized when they dispose of the stock.

PROJECT OUTREACH

Pursuant to the mandate of the National and Community Services Act of 1991, Treasury has implemented Project Outreach, a program designed to encourage Department employees to volunteer as mentors and tutors to youth-at-risk through partnerships between Treasury bureaus, the private sector, and local school districts. Participating bureaus include ATF, Customs, IRS, and the U.S. Secret Service. Partnerships have been established in numerous urban locations, including Houston, Miami, New Orleans, Norfolk, Philadelphia, and San Francisco.

LAW ENFORCEMENT

The Treasury bureaus of Customs, Alcohol, Tobacco, and Firearms, and the Secret Service play special roles in the nation's efforts to reduce drug imports and to enforce compliance with laws relating to the availability and use of firearms. Both objectives have particular urgency in America's distressed urban areas, and the bureaus should have a significant role to play in the Administration's comprehensive urban agenda.

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 <u>and</u> 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 ESOPs 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 75% 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.

Final Enterprise Zone language / Tax Portion

TITLE III—EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

SEC. 301. DESIGNATION AND TREATMENT OF EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES.

(a) IN GENERAL.—Chapter 1 (relating to normal taxes and surtaxes) is amended by inserting after subchapter T the following new subchapter:

"Subchapter U—Designation and Treatment of Empowerment Zones and Enterprise Communities

"Part I. Designation.
"Part II. Incentives for empowerment zones and enterprise communities.
"Part III. Additional incentives for empowerment zones.
"Part IV. Regulations.

"PART I—DESIGNATION

"Sec. 1391. Designation procedure.
"Sec. 1392. Eligibility criteria.
"Sec. 1393. Definitions and special rules.

"SEC. 1391. DESIGNATION PROCEDURE.

"(a) IN GENERAL.—From among the areas nominated for designation under this section, the appropriate Secretaries may, in consultation with the Enterprise Board, designate empowerment zones and enterprise communities.

"(b) NUMBER OF DESIGNATIONS.—

"(1) ENTERPRISE COMMUNITIES.—The appropriate Secretaries may designate in the aggregate 100 nominated areas as enterprise communities under this section, subject to the availability of eligible nominated areas. Of that number, not more than 65 may be designated in urban areas, not more than 30 may be designated in rural areas, and not more than 5 may be designated by the Secretary of the Interior in Indian reservations.

"(2) EMPOWERMENT ZONES.—The appropriate Secretaries may designate in the aggregate 10 nominated areas as empowerment zones under this section, subject to the availability of eligible nominated areas. Of that number, not more than 6 may be designated in urban areas, not more than 3 may be designated in rural areas, and not more than 1 may be designated by the Secretary of the Interior in an Indian reservation. If 6 empowerment zones are designated in urban areas, no less than 1 shall be designated in an urban area whose most populous city has a population of 500,000 or less. The Secretary of Housing and Urban Development shall designate empowerment zones located in urban areas in such a manner that the aggregate population of all such zones does not exceed 750,000.

"(c) PERIOD DESIGNATIONS MAY BE MADE.—A designation may be made under this section only after 1993 and before 1996.

"(d) PERIOD FOR WHICH DESIGNATION IS IN EFFECT.—

"(1) IN GENERAL.—Any designation under this section shall remain in effect during the period beginning on the date of the designation and ending on the earliest of—

"(A) the close of the 10th calendar year beginning on or after such date of designation,

"(B) the termination date designated by the State and local governments as provided for in their nomination, or

"(C) the date the appropriate Secretary revokes the designation.

"(2) REVOCATION OF DESIGNATION.—

"(A) IN GENERAL.—The appropriate Secretary, in consultation with the Enterprise Board, may revoke the designation under this section of an area if such Secretary determines that the local government or the State in which it is located—

"(i) has modified the boundaries of the area, or "(ii) is not complying substantially with, or fails to make progress in achieving the benchmarks set forth in, the strategic plan under subsection (f)(2).

"(B) APPLICABLE PROCEDURES.—A designation may be revoked by the appropriate Secretary under subparagraph (A) only after a hearing on the record involving officials of the State or local government involved.

"(e) LIMITATIONS ON DESIGNATIONS.—An area may be designated under subsection (a) only if—

"(1) the area is nominated by 1 or more local governments and the State or States in which it is located for designation under this section,

"(2) such State or States and the local governments have the authority—

"(A) to nominate the area for designation under this section, and

"(B) to provide the assurances described in paragraph (3),

"(3) such State or States and the local governments provide written assurances satisfactory to the appropriate Secretary that the strategic plan described in the application under subsection (f)(2) for such area will be implemented, "(4) the appropriate Secretary determines that any information furnished is reasonably accurate, and

"(5) such State or States and local governments certify that no portion of the area nominated is already included in an empowerment zone or in an enterprise community or in an area otherwise nominated to be designated under this section.

"(f) APPLICATION.—An application for designation as an empowerment zone or as an enterprise community shall—

"(1) demonstrate that the nominated area satisfies the eligibility criteria described in section 1392,

"(2) include a strategic plan for accomplishing the purposes of this subchapter that—

"(A) describes the coordinated economic, human, community, and physical development plan and related activities proposed for the nominated area,

"(B) describes the process by which the affected community is a full partner in the process of developing and implementing the plan and the extent to which local institutions and organizations have contributed to the planning process,

"(C) identifies the amount of State, local, and private resources that will be available in the nominated area and the private/public partnerships to be used, which may include participation by, and cooperation with, universities, medical centers, and other private and public entities,

"(D) identifies the funding requested under any Federal program in support of the proposed economic, human, community, and physical development and related activities,

"(E) identifies baselines, methods, and benchmarks for measuring the success of carrying out the strategic plan, including the extent to which poor persons and families will be empowered to become economically self-sufficient, and

"(F) does not include any action to assist any establishment in relocating from one area outside the nominated area to the nominated area, except that assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary is permitted if—

"(i) the establishment of the new branch, affiliate, or subsidiary will not result in a decrease in employment in the area of original location or in any other area where the existing business entity conducts business operations, and

"(ii) there is no reason to believe that the new branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where the existing business entity conducts business operation, and

"(3) include such other information as may be required by the appropriate Secretary or the Enterprise Board.

"SEC. 1392. ELIGIBILITY CRITERIA.

"(a) IN GENERAL.—A nominated area shall be eligible for designation under section 1391 only if it meets the following criteria:

"(1) POPULATION.—The nominated area has a maximum population of—

"(A) in the case of an urban area, the lesser of—

"(i) 200,000, or

"(ii) the greater of 50,000 or 10 percent of the population of the most populous city located within the nominated area, and

"(B) in the case of a rural area, 30,000.

"(2) DISTRESS.—The nominated area is one of pervasive poverty, unemployment, and general distress.

"(3) SIZE.—The nominated area—

"(A) does not exceed 20 square miles if an urban area or 1,000 square miles if a rural area or an Indian reservation,

"(B) has a boundary which is continuous, or, except in the case of a rural area located in more than 1 State, consists of not more than 3 noncontiguous parcels,

"(C)(i) in the case of an urban area, is located entirely within no more than 2 contiguous States, and

"(ii) in the case of a rural area, is located entirely within no more than 3 contiguous States, and

"(D) does not include any portion of a central business district (as such term is used for purposes of the most recent Census of Retail Trade) unless the poverty rate for each population census tract in such district is not less than 35 percent.

"(4) POVERTY RATE.—The poverty rate—

"(A) for each population census tract within the nominated area is not less than 20 percent,

"(B) for at least 90 percent of the population census tracts within the nominated area is not less than 25 percent, and

"(C) for at least 50 percent of the population census tracts within the nominated area is not less than 35 percent.

"(b) SPECIAL RULES RELATING TO DETERMINATION OF POVERTY RATE.—For purposes of subsection (a)(4)—

"(1) TREATMENT OF CENSUS TRACTS WITH SMALL POPULATIONS.—

"(A) TRACTS WITH NO POPULATION.—In the case of a population census tract with no population—

"(i) such tract shall be treated as having a poverty rate which meets the requirements of subparagraphs (A) and (B) of subsection (a)(4), but

"(ii) such tract shall be treated as having a zero poverty rate for purposes of applying subparagraph (C) thereof.

"(B) TRACTS WITH POPULATIONS OF LESS THAN 2,000.—A population census tract with a population of less than 2,000 shall be treated as having a poverty rate which meets the requirements of subparagraphs (A) and (B) of subsection (a)(4) if more than 75 percent of such tract is zoned for commercial or industrial use.

"(2) DISCRETION TO ADJUST REQUIREMENTS.—Where necessary to carry out the purposes of this subchapter, the appropriate Secretary may reduce by 5 percentage points one of the following thresholds for not more than 10 percent of the population census tracts (or, if fewer, 5 population census tracts) in the nominated area:

"(A) The 20 percent threshold in subsection (a)(4)(A).

"(B) The 25 percent threshold in subsection (a)(4)(B).

"(C) The 35 percent threshold in subsection (a)(4)(C).

"(3) EACH NONCONTIGUOUS AREA MUST SATISFY POVERTY RATE RULE.—A nominated area may not include a noncontiguous parcel unless such parcel separately meets (subject to paragraphs (1) and (2)) the criteria set forth in subsection (a)(4).

"(4) AREAS NOT WITHIN CENSUS TRACTS.—In the case of an area which is not tracted for population census tracts, the equivalent county divisions (as defined by the Bureau of the Census for purposes of defining poverty areas) shall be used for purposes of determining poverty rates.

"(c) FACTORS TO CONSIDER.—From among the nominated areas eligible for designation under section 1391 by the appropriate Secretary, such appropriate Secretary shall make designations of empowerment zones and enterprise communities on the basis of—

"(1) the effectiveness of the strategic plan submitted pursuant to section 1391(f)(2) and the assurances made pursuant to section 1391(e)(3), and

"(2) criteria specified by the Enterprise Board.

"SEC. 1393. DEFINITIONS AND SPECIAL RULES.

"(a) IN GENERAL.—For purposes of this subchapter—

"(1) APPROPRIATE SECRETARY.—The term 'appropriate Secretary' means—

"(A) the Secretary of Housing and Urban Development in the case of any nominated area which is located in an urban area,

"(B) the Secretary of Agriculture in the case of any nominated area which is located in a rural area, and

"(C) the Secretary of the Interior in the case of any nominated area which is located in an Indian reservation.

"(2) ENTERPRISE BOARD.—The term 'Enterprise Board' means any board hereafter established and designated for purposes of this subchapter as the 'Enterprise Board'.

"(3) RURAL AREA.—The term 'rural area' means any area which is—

"(A) outside of a metropolitan statistical area (within the meaning of section 143(k)(2)(B)), or

"(B) determined by the Secretary of Agriculture, after consultation with the Secretary of Commerce, to be a rural area.

"(4) URBAN AREA.—The term 'urban area' means an area which is not a rural area.

"(5) INDIAN RESERVATION.—

"(A) IN GENERAL.—The term 'Indian reservation' means a reservation as defined in—

"(i) section 3(d) of the Indian Financing Act of 1974 (25 U.S.C. 1452(d)), or

"(ii) section 4(10) of the Indian Child Welfare Act of 1978 (25 U.S.C. 1903(10).

"(B) GOVERNMENTS.—In the case of an area in an Indian reservation, the reservation governing body (as determined by the Secretary of the Interior) shall be deemed to be both the State and local governments with respect to such area.

"(6) LOCAL GOVERNMENT.—The term 'local government' means—

"(A) any county, city, town, township, parish, village, or other general purpose political subdivision of a State, and

"(B) any combination of political subdivisions described in subparagraph (A) recognized by the appropriate Secretary.

"(7) NOMINATED AREA.—The term 'nominated area' means an area which is nominated by 1 or more local governments and the State or States in which it is located for designation under section 1391.

"(8) GOVERNMENTS.—If more than 1 State or local government seeks to nominate an area as a tax enterprise zone, any reference to, or requirement of, this subchapter shall apply to all such governments.

"(9) SPECIAL RULE.—An area shall be treated as nominated by a State and a local government if it is nominated by such other entity as may be specified by the Enterprise Board.

"(10) USE OF CENSUS DATA.—Population and poverty rate shall be determined by the most recent decennial census data available.

"(b) EMPOWERMENT ZONE; ENTERPRISE COMMUNITY.—For purposes of this title, the terms 'empowerment zone' and 'enterprise community' mean areas designated as such under section 1391.

"PART II—INCENTIVES FOR EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

"SEC. 1394. ZONE RESIDENT EMPOWERMENT SAVINGS CREDIT.

"(a) GENERAL RULE.—For purposes of section 38, the amount of the zone resident empowerment savings credit determined under this section with respect to any employer for any taxable year is 50 percent of the qualified savings contributions for the taxable year.

"(b) QUALIFIED SAVINGS CONTRIBUTIONS.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified savings contribution' means any contribution by an employer to a defined contribution plan—

"(A) which is made on behalf of an employee in connection with services performed by such employee while such employee is a qualified zone employee, and

"(B) with respect to which the employee has a nonforfeitable right.

"(2) LIMITATION BASED ON COMPENSATION.—

"(A) IN GENERAL.—The qualified savings contributions taken into account with respect to any qualified zone employee for any taxable year shall not exceed an amount equal to 2 percent of so much of the employee's compensation (as defined in section 414(s)) as does not exceed $35,000.

"(B) ZONE DESIGNATION IN EFFECT FOR PARTIAL YEAR.—If a designation of an area as an empowerment zone or an enterprise community is in effect for less than the entire taxable year, the $35,000 amount under subparagraph (A) shall be ratably reduced to reflect the portion of the year such designation is not in effect.

"(3) CERTAIN CONTRIBUTIONS EXCLUDED.—The term 'qualified savings contribution' shall not include any contribution—

"(A) to a plan subject to the funding requirements of section 412,

"(B) to a tax credit employee stock ownership plan (as defined in section 409(a)) or to an employee stock ownership plan (as defined in section 4975(e)(7)),

"(C) to a stock bonus plan, or

"(D) which is an elective deferral (within the meaning of section 402(g)(3)).

"(4) SIMPLIFIED EMPLOYEE PENSION.—A contribution to an individual savings plan pursuant to a simplified employee pension (as defined in section 408(k)) shall be treated as a contribution to a defined contribution plan.

"(c) EMPLOYER REQUIREMENTS.—This section shall apply to an employer for any taxable year only if—

"(1) the employer elects the application of this section, and

"(2) the plan pursuant to which any qualified savings contribution is made provides that any contribution to such plan (whether or not a qualified savings contribution) may be withdrawn by a qualified zone employee for the purposes described in section 72(t)(2) (B) or (D).

"(d) DEFINITIONS.—For purposes of this section—

"(1) QUALIFIED ZONE EMPLOYEE.—The term 'qualified zone employee' has the meaning given such term by section 1396(d), except that the references to empowerment zones shall be treated as including references to enterprise communities.

"(2) DEFINED CONTRIBUTION PLAN.—The term 'defined contribution plan' means a defined contribution plan (as defined in section 414(i)) which is described in section 401(a) and includes a trust exempt from tax under section 501(a).

"(e) TREATMENT OF PLANS.—A plan shall not be treated as failing to meet any requirement of part I of subchapter D of chapter 1 by reason of permitting withdrawals for the purposes described in section 72(t)(2)(B) or (D).

"SEC. 1395. ADDITIONAL BENEFITS.

"(a) INCREASE IN LOW INCOME HOUSING CREDIT.—For purposes of section 42(d)(5)(C), a building shall be treated as located in a qualified census tract if—

"(1) such building is located in a census tract having a poverty rate of at least 30 percent (determined in accordance with section 1393(a)(10)), and

"(2) such building is located in an empowerment zone or an enterprise community.

"(b) TAX EXEMPT ENTERPRISE ZONE FACILITY BONDS.—

"(1) IN GENERAL.—For purposes of part IV of subchapter B of chapter 1 (relating to tax exemption requirements for State and local bonds), the term 'exempt facility bond' includes any bond issued as part of an issue 95 percent or more of the net proceeds (as defined in section 150(a)(3)) of which are to be used to provide any enterprise zone facility.

"(2) ENTERPRISE ZONE FACILITY.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'enterprise zone facility' means any qualified zone property the principal user of which is an enterprise zone business (as defined in section 1399A), and any land which is functionally related and subordinated to such property.

"(B) QUALIFIED ZONE PROPERTY.—The term 'qualified zone property' has the meaning given such term by section 1398(c); except that—

"(i) section 1398(c)(3) shall not apply, and

"(ii) the references to empowerment zones shall be treated as including references to enterprise communities.

"(3) LIMITATION ON AMOUNT OF BONDS.—

"(A) IN GENERAL.—Paragraph (1) shall not apply to any issue if the aggregate amount of outstanding enterprise zone facility bonds allocable to any enterprise zone business (taking into account such issue) exceeds—

"(i) $3,000,000 with respect to any 1 empowerment zone or enterprise community, or

"(ii) $20,000,000 with respect to all empowerment zones and enterprise communities.

"(B) AGGREGATE ENTERPRISE ZONE FACILITY BOND BENEFIT.—For purposes of subparagraph (A), the aggregate amount of outstanding enterprise zone facility bonds allocable to any business shall be determined under rules similar to the rules of section 144(a)(10), taking into account only bonds to which paragraph (1) applies.

"(4) ACQUISITION OF LAND AND EXISTING PROPERTY PERMITTED.—The requirements of sections 147(c)(1)(A) and 147(d) shall not apply to any bond described in paragraph (1).

"(5) PARTIAL EXEMPTION FROM VOLUME CAP.—Only for purposes of section 146, the term 'private activity bond' shall not include 50 percent of any bond issued as part of an issue described in paragraph (1).

"(6) PENALTY FOR CEASING TO MEET REQUIREMENTS.—

"(A) FAILURES CORRECTED.—An issue which fails to meet 1 or more of the requirements of paragraphs (1) and (2) shall be treated as meeting such requirements if—

"(i) the issuer and any principal user in good faith attempted to meet such requirements, and

"(ii) any failure to meet such requirements is corrected within a reasonable period after such failure is first discovered.

"(B) LOSS OF DEDUCTIONS WHERE FACILITY CEASES TO BE QUALIFIED.—No deduction shall be allowed under this chapter for interest on any financing provided from any bond to which paragraph (1) applies with respect to any facility to the extent such interest accrues during the period beginning on the first day of the calendar year which includes the date on which—

"(i) substantially all of the facility with respect to which the financing was provided ceases to be used in an empowerment zone or enterprise community, or

"(ii) the principal user of such facility ceases to be an enterprise zone business (as defined in section 1399A, but treating references to empowerment zones as including references to enterprise communities).

"(C) EXCEPTION IF ZONE CEASES.—Subparagraphs (A) and (B) shall not apply solely by reason of the termination or revocation of a designation as an empowerment zone or an enterprise community."

"(D) EXCEPTION FOR BANKRUPTCY.—Subparagraphs (A) and (B) shall not apply to any cessation resulting from bankruptcy.

"(c) ENTERPRISE ZONE FACILITY BONDS NOT SUBJECT TO INTEREST DEDUCTION LIMITATIONS ON FINANCIAL INSTITUTIONS.—Any tax-exempt bond described in paragraph (1)—

"(1) shall be treated as acquired before August 8, 1986, for purposes of sections 265(b) and 291(e)(1)(B), and

"(2) shall not be taken into account in determining whether any issuer is a qualified small issuer for purposes of section 265(b).

"PART III—ADDITIONAL INCENTIVES FOR EMPOWERMENT ZONES

"Subpart A—Empowerment Zone Employment Credit

"SEC. 1396. EMPOWERMENT ZONE EMPLOYMENT CREDIT.

"(a) AMOUNT OF CREDIT.—For purposes of section 38, the amount of the empowerment zone employment credit determined under this section with respect to any employer for any taxable year is the applicable percentage of the qualified zone wages paid or incurred during the calendar year which ends with or within such taxable year.

"(b) APPLICABLE PERCENTAGE.—For purposes of this section, the term 'applicable percentage' means the percentage determined in accordance with the following table:

"In the case of wages paid or incurred during calendar year:	The applicable percentage is:
1994 through 2000	25
2001	20
2002	15
2003	10
2004	5

"(c) QUALIFIED ZONE WAGES.—

"(1) IN GENERAL.—For purposes of this section, the term 'qualified zone wages' means any wages paid or incurred by an employer for services performed by an employee while such employee is a qualified zone employee.

"(2) ONLY FIRST $20,000 OF WAGES PER YEAR TAKEN INTO ACCOUNT.—With respect to each qualified zone employee, the amount of qualified zone wages which may be taken into account for a calendar year shall not exceed $20,000.

"(3) COORDINATION WITH TARGETED JOBS CREDIT.—

"(A) IN GENERAL.—The term 'qualified zone wages' shall not include wages attributable to service rendered during the 1-year period beginning with the day the individual begins work for the employer if any portion of such wages is taken into account in determining the credit under section 51.

"(B) COORDINATION WITH PARAGRAPH (2).—In the case of the calendar year in which the 1-year period referred to in subparagraph (A) ends, the $20,000 amount in paragraph (2) shall be reduced by the amount of wages attributable to service rendered during the portion of such 1-year period which is within such calendar year.

"(d) QUALIFIED ZONE EMPLOYEE.—For purposes of this section—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the term 'qualified zone employee' means, with respect to any period, any employee of an employer if—

"(A) substantially all of the services performed during such period by such employee for such employer are performed within an empowerment zone in a trade or business of the employer, and

"(B) the principal place of abode of such employee while performing such services is within such empowerment zone.

"(2) CERTAIN INDIVIDUALS NOT ELIGIBLE.—The term 'qualified zone employee' shall not include—

"(A) any individual described in subparagraph (A), (B), or (C) of section 51(i)(1),

"(B) any 5-percent owner (as defined in section 416(i)(1)(B)),

"(C) any individual employed by the employer for less than 90 days,

"(D) any individual employed by the employer at any facility described in section 144(c)(6)(B), and

"(E) any individual employed by the employer in a trade or business the principal activity of which is farming (within the meaning of subparagraphs (A) or (B) of section 2032A(e)(5)), but only if, as of the close of the taxable year, the sum of—

"(i) the aggregate unadjusted bases (or, if greater, the fair market value) of the assets owned by the employer which are used in such a trade or business, and

"(ii) the aggregate value of assets leased by the employer which are used in such a trade or business (as determined under regulations prescribed by the Secretary),

exceeds $500,000.

"(3) SPECIAL RULES RELATED TO TERMINATION OF EMPLOYMENT.—

"(A) IN GENERAL.—Paragraph (2)(C) shall not apply to—

"(i) a termination of employment of an individual who before the close of the period referred to in paragraph (2)(C) becomes disabled to perform the services of such employment unless such disability is removed before the close of such period and the taxpayer fails to offer reemployment to such individual, or

"(ii) a termination of employment of an individual if it is determined under the applicable State unemployment compensation law that the termination was due to the misconduct of such individual.

"(B) CHANGES IN FORM OF BUSINESS.—For purposes of paragraph (2)(C), the employment relationship between the taxpayer and an employee shall not be treated as terminated—

"(i) by a transaction to which section 381(a) applies if the employee continues to be employed by the acquiring corporation, or

"(ii) by reason of a mere change in the form of conducting the trade or business of the taxpayer if the employee continues to be employed in such trade or business and the taxpayer retains a substantial interest in such trade or business.

"SEC. 1397. OTHER DEFINITIONS AND SPECIAL RULES.

"(a) WAGES.—For purposes of this subpart—

"(1) IN GENERAL.—The term 'wages' has the same meaning as when used in section 51.

"(2) CERTAIN TRAINING AND EDUCATIONAL BENEFITS.—

"(A) IN GENERAL.—The following amounts shall be treated as wages paid to an employee:

"(i) Any amount paid or incurred by an employer which is excludable from the gross income of an employee under section 127, but only to the extent paid or incurred to a person not related to the employer.

"(ii) In the case of an employee who has not attained the age of 19, any amount paid or incurred by an employer for any youth training program operated by such employer in conjunction with local education officials.

"(B) RELATED PERSON.—A person is related to any other person if the person bears a relationship to such other person specified in section 267(b) or 707(b)(1), or such person and such other person are engaged in trades or businesses under common control (within the meaning of subsections (a) and (b) of section 52). For purposes of the preceding sentence, in applying section 267(b) or 707(b)(1), '10 percent' shall be substituted for '50 percent'.

"(b) CONTROLLED GROUPS.—For purposes of this subpart—

"(1) all employers treated as a single employer under subsection (a) or (b) of section 52 shall be treated as a single employer for purposes of this subpart, and

"(2) the credit (if any) determined under section 1396 with respect to each such employer shall be its proportionate share of the wages giving rise to such credit.

"(c) CERTAIN OTHER RULES MADE APPLICABLE.—For purposes of this subpart, rules similar to the rules of section 51(k) and subsections (c), (d), and (e) of section 52 shall apply.

"(d) NOTICE OF AVAILABILITY OF ADVANCE PAYMENT OF EARNED INCOME CREDIT.—Each employer shall take reasonable steps to notify all qualified zone employees of the availability to eligible individuals of receiving advanced payments of the credit under section 32 (relating to the earned income credit).

"Subpart B—Depreciation and Other Incentives

"SEC. 1398. DEPRECIATION BENEFITS.

"(a) INCREASE IN EXPENSING UNDER SECTION 179.—

"(1) IN GENERAL.—In the case of an enterprise zone business, for purposes of section 179—

"(A) qualified zone property shall be treated as section 179 property,

"(B) the limitation under section 179(b)(1) shall be increased by the lesser of—

"(i) $65,000, or

"(ii) the cost of qualified zone property placed in service during the taxable year, and

"(C) section 179(b)(2) shall be applied by substituting 'by one-half of the amount by which the cost of qualified zone property (other than real property)' for 'by the amount by which the cost of section 179 property'.

"(b) ACCELERATED DEPRECIATION.—

"(1) IN GENERAL.—For purposes of section 168(a), with respect to qualified zone property of an enterprise zone business, the applicable recovery period shall be determined in accordance with the table contained in paragraph (2) in lieu of the table contained in section 168(c).

"(2) APPLICABLE RECOVERY PERIOD FOR QUALIFIED ZONE PROPERTY.—For purposes of paragraph (1)—

"In the case of:	The applicable recovery period is:
3-year property	2 years
5-year property	3 years
7-year property	4 years
10-year property	6 years
15-year property	9 years
20-year property	12 years
Nonresidential real property	22 years.

"(3) DEDUCTION ALLOWED IN COMPUTING MINIMUM TAX.—Paragraph (1) shall apply for purposes of determining alternative minimum taxable income under section 55.

"(4) COORDINATION WITH INVESTMENT CREDIT.—This subsection shall not apply to any property with respect to which a credit is determined under section 46A or 50A. If the lessee of any property is treated as the owner of such property for purposes of such credit, this subsection shall not apply to such property in the hands of the lessor.

"(c) QUALIFIED ZONE PROPERTY.—For purposes of this section—

"(1) IN GENERAL.—The term 'qualified zone property' means any property to which section 168 applies (or would apply but for section 179) if—

"(A) such property was acquired by the taxpayer by purchase (as defined in section 179(d)(2)) after the date on which the designation of the empowerment zone took effect,

"(B) the original use of which in an empowerment zone commences with the taxpayer, and

"(C) substantially all of the use of which is in an empowerment zone and is in the active conduct of a trade or business by the taxpayer in such zone.

"(2) SPECIAL RULE FOR SUBSTANTIAL RENOVATIONS.—In the case of any property which is substantially renovated by the taxpayer, the requirements of subparagraphs (A) and (B) of paragraph (1) shall be treated as satisfied. For purposes of the preceding sentence, property shall be treated as substantially renovated by the taxpayer if, during any 24-month period beginning after the date on which the designation of the empowerment zone took effect, additions to basis with respect to such property in the hands of the taxpayer exceed the greater of (i) an amount equal to the adjusted basis at the beginning of such 24-month period in the hands of the taxpayer, or (ii) $5,000.

"(3) EXCEPTION FOR ALTERNATIVE DEPRECIATION PROPERTY.—The term 'qualified zone property' does not include any property to which the alternative depreciation system under section 168(g) applies, determined—

"(A) without regard to section 168(g)(7) (relating to election to use alternative depreciation system), and

"(B) after the application of section 280F(b) (relating to listed property with limited business use).

"(d) SPECIAL RULES FOR SALE-LEASEBACKS.—For purposes of subsection (c)(1)(B), if property is sold and leased back by the taxpayer within 3 months after the date such property was originally placed in service, such property shall be treated as originally placed in service not earlier than the date on which such property is used under the leaseback.

"(e) RECAPTURE.—Rules similar to the rules under section 179(d)(10) shall apply with respect to any qualified zone property of any business which ceases to be an enterprise zone business.

"SEC. 1399. ADDITIONAL EXCLUSION FROM VOLUME CAP FOR CERTAIN ENTERPRISE ZONE FACILITY BONDS.

"(a) IN GENERAL.—Section 1395(b)(5) shall be applied by substituting '75 percent' for '50 percent' in the case of any bond described in section 1395(b)(1) issued as part of an issue 95 percent or more of the net proceeds (as defined in section 150(a)(3)) of which are used to provide qualified zone property the principal user of which is any enterprise zone business if the ownership requirements of subsection (b) are met with respect to-such business.

"(b) OWNERSHIP REQUIREMENTS.—The ownership requirements of this subsection are met with respect to an enterprise zone business if—

"(1) in the case of a sole proprietorship, the principal place of abode of the proprietor is in an empowerment zone,

"(2) in the case of a corporation, more than 50 percent of the stock (by vote and value) in the corporation is owned by individuals whose principal place of abode is in an empowerment zone, and

"(3) in the case of a partnership, more than 50 percent of the capital and profits interests in the partnership is owned by individuals whose principal place of abode is in an empowerment zone.

"SEC. 1399A. ENTERPRISE ZONE BUSINESS DEFINED.

"(a) IN GENERAL.—For purposes of this subpart, the term 'enterprise zone business' means—

"(1) any qualified business entity, and

"(2) any qualified proprietorship.

"(b) QUALIFIED BUSINESS ENTITY.—For purposes of this section, the term 'qualified business entity' means, with respect to any taxable year, any corporation or partnership if for such year—

"(1) every trade or business of such entity is the active conduct of a qualified business within an empowerment zone,

"(2) at least 80 percent of the total gross income of such entity is derived from the active conduct of such business,

"(3) substantially all of the use of the tangible property of such entity (whether owned or leased) is within an empowerment zone,

"(4) substantially all of the intangible property of such entity is used in, and exclusively related to, the active conduct of any such business,

"(5) substantially all of the services performed for such entity by its employees are performed in an empowerment zone,

"(6) at least 35 percent of its employees are residents of an empowerment zone,

"(7) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to collectibles (as defined in section 408(m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business, and

"(8) less than 5 percent of the average of the aggregate unadjusted bases of the property of such entity is attributable to nonqualified financial property.

"(c) QUALIFIED PROPRIETORSHIP.—For purposes of this section, the term 'qualified proprietorship' means, with respect to any taxable year, any qualified business carried on by an individual as a proprietorship if for such year—

"(1) at least 80 percent of the total gross income of such individual from such business is derived from the active conduct of such business in an empowerment zone,

"(2) substantially all of the use of the tangible property of such individual in such business (whether owned or leased) is within an empowerment zone,

"(3) substantially all of the intangible property of such business is used in, and exclusively related to, the active conduct of such business,

"(4) substantially all of the services performed for such individual in such business by employees of such business are performed in an empowerment zone,

"(5) at least 35 percent of such employees are residents of an empowerment zone,

"(6) less than 5 percent of the average of the aggregate unadjusted bases of the property of such individual which is used in such business is attributable to collectibles (as defined in section 408(m)(2)) other than collectibles that are held primarily for sale to customers in the ordinary course of such business, and

"(7) less than 5 percent of the average of the aggregate unadjusted bases of the property of such individual which is used in such business is attributable to nonqualified financial property.

For purposes of this subsection, the term 'employee' includes the proprietor.

"(d) QUALIFIED BUSINESS.—For purposes of this section—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the term 'qualified business' means any trade or business.

"(2) RENTAL OF REAL PROPERTY.—The rental to others of real property located in an empowerment zone shall be treated as a qualified business if and only if—

"(A) the property is not residential rental property (as defined in section 168(e)(2)), and

"(B) at least 50 percent of the gross rental income from the real property is from enterprise zone businesses.

"(3) RENTAL OF TANGIBLE PERSONAL PROPERTY.—The rental to others of tangible personal property shall be treated as a qualified business if and only if substantially all of the rental of such property is by enterprise zone businesses or by residents of an empowerment zone.

"(4) TREATMENT OF BUSINESS HOLDING INTANGIBLES.—The term 'qualified business' shall not include any trade or business consisting predominantly of the development or holding of intangibles for sale or license.

"(5) CERTAIN BUSINESSES EXCLUDED.—The term 'qualified business' shall not include—

"(A) any trade or business consisting of the operation of any facility described in section 144(c)(6)(B), and

"(B) any trade or business the principal activity of which is farming (within the meaning of subparagraphs (A) or (B) of section 2032A(e)(5)), but only if, as of the close of the preceding taxable year, the sum of—

"(i) the aggregate unadjusted bases (or, if greater, the fair market value) of the assets owned by the taxpayer which are used in such a trade or business, and "(ii) the aggregate value of assets leased by the taxpayer which are used in such a trade or business,

exceeds $500,000.

For purposes of subparagraph (B), rules similar to the rules of section 1397(b) shall apply.

"(e) NONQUALIFIED FINANCIAL PROPERTY.—For purposes of this section, the term 'nonqualified financial property' means debt, stock, partnership interests, options, futures contracts, forward contracts, warrants, notional principal contracts, annuities, and other similar property specified in regulations; except that such term shall not include—

"(1) reasonable amounts of working capital held in cash, cash equivalents, or debt instruments with a term of 18 months or less, or

"(2) debt instruments described in section 1221(4).

"PART IV—REGULATIONS

"SEC. 1399B. REGULATIONS.

"The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of parts II and III, including—

"(1) regulations limiting the benefit of parts II and III in circumstances where such benefits, in combination with benefits provided under other Federal programs, would result in an activity being 100 percent or more subsidized by the Federal Government,

"(2) regulations preventing abuse of the provisions of parts II and III, and

"(3) regulations dealing with inadvertent failures of entities to be enterprise zone businesses."

(b) CLERICAL AMENDMENT.—The table of subchapters for chapter 1 is amended by inserting after the item relating to subchapter T the following new item:

"Subchapter U. Designation and treatment of empowerment zones and enterprise communities."

SEC. 302. EXPANSION OF TARGETED JOBS CREDIT.

(a) ALLOWANCE OF CREDIT FOR HIRING EMPOWERMENT ZONE RESIDENT.—Paragraph (1) of section 51(d) (defining members of targeted groups) is amended by striking "or" at the end of subparagraph (I), by striking the period at the end of subparagraph (J) and inserting ", or", and by adding at the end the following new subparagraph:

"(K) an empowerment zone resident."

(b) EMPOWERMENT ZONE RESIDENT.—Section 51(d) is amended by redesignating paragraphs (13) through (16) as paragraphs (14) through (17), respectively, and by inserting after paragraph (12) the following new paragraph:

"(13) EMPOWERMENT ZONE RESIDENT.—The term 'empowerment zone resident' means an individual whose principal place of abode while performing services for the employer is within an empowerment zone."

(c) CONFORMING AMENDMENT.—Subparagraph (C) of section 51(d)(12) is amended by striking "paragraph (11)" and inserting "paragraph (12)".

SEC. 303. TECHNICAL AND CONFORMING AMENDMENTS.

(a) CERTAIN CREDITS PART OF GENERAL BUSINESS CREDIT.—

(1) Subsection (b) of section 38 (relating to current year business credit) is amended by striking "plus" at the end of paragraph (7), by striking the period at the end of paragraph (8) and inserting a comma, and by adding at the end the following new paragraphs:

"(9) the zone resident empowerment savings credit determined under section 1394, plus

"(10) the empowerment zone employment credit determined under section 1396(a)."

(2) Subsection (d) of section 39, as amended by section 1201(e)(2), is amended by adding at the end the following new paragraph:

"(5) ENTERPRISE ZONE CREDITS.—No portion of the unused business credit which is attributable to the credit determined under section 1394 (relating to zone resident empowerment savings credit) or section 1396 (relating to empowerment zone employment credit) may be carried to any taxable year ending before January 1, 1994."

(b) DENIAL OF DEDUCTION FOR PORTION OF WAGES EQUAL TO EMPOWERMENT ZONE EMPLOYMENT CREDIT.—

(1) Subsection (a) of section 280C (relating to rule for targeted jobs credit) is amended—

(A) by striking "the amount of the credit determined for the taxable year under section 51(a)" and inserting "the sum of the credits determined for the taxable year under sections 51(a) and 1396(a)", and

(B) by striking "TARGETED JOBS CREDIT" in the subsection heading and inserting "EMPLOYMENT CREDITS".

(2) Subsection (c) of section 196 (relating to deduction for certain unused business credits) is

amended by striking "and" at the end of paragraph (4), by striking the period at the end of paragraph (5) and inserting ", and", and by adding at the end the following new paragraph:

"(6) the empowerment zone employment credit determined under section 1396(a)."

(c) EMPLOYMENT AND SAVINGS CREDITS MAY OFFSET 25 PERCENT OF MINIMUM TAX.—

(1) Subparagraph (A) of section 38(c)(2), as added by section 1201(c) of this Act, is amended—

(A) by inserting "and the empowerment zone credits" after "the regular investment tax credit" each place it appears, and

(B) by striking "such credit" in clause (ii) and inserting "such credits".

(2) Paragraph (2) of section 38(c), as so added, is amended by adding at the end thereof the following new subparagraph:

"(C) EMPOWERMENT ZONE CREDITS.—For purposes of this paragraph, the term 'empowerment zone credits' means the portion of the credit under subsection (a) which is attributable to the credits determined under section 1394 (relating to zone resident empowerment savings credit) and section 1396 (relating to empowerment zone employment credit)."

(d) CHANGES RELATING TO EMPOWERMENT ZONE RESIDENT EMPOWERMENT SAVINGS CREDIT.—

(1) DISALLOWANCE OF DEDUCTION.—Section 404 (relating to deduction for certain employer contributions) is amended by adding at the end the following new subsection:

"(m) COORDINATION WITH EMPOWERMENT ZONE CREDIT.—No deduction shall be allowed under this section for any qualified employer contribution taken into account in computing the credit determined under section 1394."

(2) PENALTY-FREE DISTRIBUTIONS.—

(A) IN GENERAL.—Paragraph (2) of section 72(t) (relating to exceptions to 10-percent additional tax on early distributions from qualified retirement plans) is amended by adding at the end thereof the following new subparagraph:

"(D) DISTRIBUTIONS FROM CERTAIN PLANS FOR FIRST HOME PURCHASES OR EDUCATIONAL EXPENSES.—

"(i) IN GENERAL.—Distributions to an individual from a qualified retirement plan—

"(I) which are qualified first-time homebuyer distributions (as defined in paragraph (6)),

"(II) to the extent such distributions do not exceed the qualified higher education expenses (as defined in paragraph (7)) of the taxpayer for the taxable year, or

"(III) to the extent such distributions do not exceed an amount equal to the aggregate investment made by the taxpayer during the taxable year in any enterprise zone business (as defined in section 1399A) that meets the ownership requirements of section 1399(b).

"(ii) LIMITATION.—Clause (i) shall not apply to the extent that the aggregate amount of the distributions described in clause (i) are greater than the excess of—

"(I) the qualified retirement contributions (as defined in section 1394(b)) of the taxpayer, and any earnings thereon, over

"(II) the aggregate amounts to which clause (i) and the last sentence of paragraph (3)(A) applied for preceding taxable years."

(B) DEFINITIONS.—Section 72(t) is amended by adding at the end thereof the following new paragraphs:

"(6) QUALIFIED FIRST-TIME HOMEBUYER DISTRIBUTIONS.—For purposes of paragraph (2)(D)(i)(I)—

"(A) IN GENERAL.—The term 'qualified first-time homebuyer distribution' means any payment or distribution received by an individual to the extent such payment or distribution is used by the individual before the close of the 60th day after the day on which such payment or distribution is received to pay qualified acquisition costs with respect to a principal residence of a first-time homebuyer who is such individual or the spouse of such individual.

"(B) QUALIFIED ACQUISITION COSTS.—For purposes of this paragraph, the term 'qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence. Such term includes any usual or reasonable settlement, financing, or other closing costs.

"(C) FIRST-TIME HOMEBUYER; OTHER DEFINITIONS.—For purposes of this paragraph—

"(i) FIRST-TIME HOMEBUYER.—The term 'first-time homebuyer' means any individual if—

"(I) such individual (and if married, such individual's spouse) had no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this paragraph applies, and

"(II) subsection (a)(6), (h), or (k) of section 1034 did not suspend the running of any period of time specified in section 1034 with respect to such individual on the day before the date the distribution is applied pursuant to subparagraph (A)(ii).

"(ii) PRINCIPAL RESIDENCE.—The term 'principal residence' has the same meaning as when used in section 1034.

"(iii) DATE OF ACQUISITION.—The term 'date of acquisition' means the date—

"(I) on which a binding contract to acquire the principal residence to which subparagraph (A) applies is entered into, or

"(II) on which construction or reconstruction of such a principal residence is commenced.

"(D) SPECIAL RULE WHERE DELAY IN ACQUISITION.—If any distribution from any qualified retirement plan fails to meet the requirements of subparagraph (A) solely by reason of a delay or cancellation of the purchase or construction of the residence, the amount of the distribution may be recontributed to the plan from which it was distributed within 120 days after the date of such distribution.

"(7) QUALIFIED HIGHER EDUCATION EXPENSES.—For purposes of paragraph (2)(D)(ii)(II)—

"(A) IN GENERAL.—The term 'qualified higher education expenses' means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of—

"(i) the taxpayer,

"(ii) the taxpayer's spouse, or

"(iii) the taxpayer's child (as defined in section 151(c)(3)) or grandchild,

at an eligible educational institution (as defined in section 135(c)(3)).

"(B) COORDINATION WITH SAVINGS BOND PROVISIONS.—The amount of qualified higher education expenses for any taxable year shall be reduced by any amount excludable from gross income under section 135."

(C) CONFORMING AMENDMENTS.—

(i) Subparagraph (B) of section 72(t)(2) is amended by striking "or (C)" and inserting ", (C), or (D)".

(ii) Section 401(k)(2)(B)(i) is amended by striking "or" at the end of subclause (III), by striking "and" at the end of subclause (IV) and inserting "or", and by inserting after subclause (IV) the following new subclause:

"(V) subject to the limitation of section 72(t)(2)(D)(ii), the date on which qualified first-time homebuyer distributions (as defined in section

72(t)(6)), distributions for qualified higher education expenses (as defined in section 72(t)(7)), or distributions for investments described in section 72(t)(2)(D)(i)(III) are made, and".

(e) AMENDMENT OF TARGETED JOBS CREDIT.—Subparagraph (A) of section 51(i)(1) is amended by inserting ", or, if the taxpayer is an entity other than a corporation, to any individual who owns, directly or indirectly, more than 50 percent of the capital and profits interests in the entity," after "of the corporation".

(f) CARRYOVERS.—Subsection (c) of section 381 (relating to carryovers in certain corporate acquisitions) is amended by adding at the end the following new paragraph:

"(26) ENTERPRISE ZONE PROVISIONS.—The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and subchapter U, and under such regulations as may be prescribed by the Secretary) the items required to be taken into account for purposes of subchapter U in respect of the distributor or transferor corporation."

SEC. 304. EFFECTIVE DATE.

The amendments made by this title shall take effect on the date of the enactment of this Act.

WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

FAX TO: Mike Alexander
Bob Nash
Larry Katz
Maurice Foley
Val Strehlow
Joe Firschein
Greg Simon
Bruce Reed
Paul Weinstein
Paul Dimond

FAX FROM: JACQUIE LAWING, DEPT. OF HUD
Contact # - 708-0270
Fax # - 708-3336

COMMENTS:

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

May 4, 1993

Honorable Thomas S. Foley
Speaker of the House
of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

On behalf of Secretary Mike Espy and myself, I am pleased to submit to the Congress the spending authorization portion of the "Economic Empowerment Act of 1993," the Clinton Administration's legislative initiative for empowerment zones and enterprise communities. For your convenience, I have also enclosed the tax incentive portion of this initiative, which has been transmitted to the Senate Finance and House Ways and Means Committees.

This legislation would empower distressed urban and rural communities to merge job creation with sustainable community growth through one integrated response. The "Economic Empowerment Act of 1993" heeds the call for reinvestment in America's distressed communities by creating ten Empowerment Zones and one hundred Enterprise Communities. Tax incentives, investment grants and other relevant Federal resources going into these communities would be coordinated with state, local and private resources to develop comprehensive strategies for job growth and economic recovery.

This approach to assisting communities with revitalization and job creation recognizes that long-term, stable economic growth in severely distressed areas must be achieved through a coordinated plan of economic, human and physical development. It also recognizes that the answers to a community's problems must be generated by that local community. Through a competitive process, a community, in partnership with the residents and private sector, would develop a comprehensive strategic plan which details how the applicant would coordinate relevant resources and incentives to meet the area's needs.

The proposal applies the principle of economic empowerment. Before the ladder of opportunity can be climbed, the first rung must be caught. The goal is to empower zone residents to join the economic mainstream by making sure the first rung is within reach.

The localities will design strategies to help residents own and manage enterprises within the designated areas and will connect them to jobs and opportunities throughout the region.

Residents who participate in these programs will be required to enter a new form of social contract stressing self-help, hard work and responsibility. The strategies will take into account existing obstacles to employment such as the absence of affordable child care and job-training and educational needs.

This legislation is a call to action first by Congress and then by Federal agencies, State and local governments and communities to recognize that government programs must be made more accessible. We have an opportunity to change the way government does business in distressed areas by streamlining regulations, rules and paperwork and modifying programs to encourage initiative at the local level.

This proposal is the result of participation from many Federal agencies in a working group on Community Development and Empowerment. The working group helped develop this proposal through carefully reviewing community needs and by studying the strengths of existing Congressional proposals.

I request that this bill be referred to the appropriate committee and urge its early enactment.

We look forward to working with you closely on this exciting proposal.

Sincerely,

/Henry Cisneros

Henry G. Cisneros

Enclosures

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

May 4, 1993

Honorable Al Gore
President of the Senate
Washington, D.C. 20510

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We look forward to working with you closely on this exciting proposal.

Sincerely,

Henry Cisneros

Henry G. Cisneros

Enclosures

AN ACT

To revitalize areas designated as Empowerment Zones and Enterprise Communities by making available tax incentives and support for community policing and by concentrating Federal, State, and local resources in such areas, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. SHORT TITLE. -- This Act may be cited as the "Economic Empowerment Act of 1993".

SEC. 2. PURPOSES. -- The purposes of this Act are --

(1) To increase business and jobs within empowerment zones and enterprise communities so that they become engines of economic growth within the region;

(2) To assist residents of these areas to join the economic mainstream by connecting them to jobs and opportunities throughout the region and by encouraging their ownership and management of enterprises and assets within the areas;

(3) To enable communities to develop comprehensive strategic plans which bring Federal, State, local, and private resources together in a broad, integrated approach to economic, human, community, and physical development;

(4) To assist communities in assuring safety and security for persons, property, and enterprise in the areas;

(5) To implement the National Educational Goals for school readiness, lifelong learning, and competitiveness for persons living in the areas; and

(6) To improve the way government does business in these areas by streamlining regulations, encouraging local innovation, and targeting resources so that results can be measured and successes replicated.

TITLE I -- ENTERPRISE GRANTS FOR

EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

SEC. 101. AUTHORITY. -- (a) IN GENERAL. -- The Secretary of Housing and Urban Development, the Secretary of Agriculture, and the Secretary of the Interior are each authorized, in accordance with the provisions of this title, to make enterprise grants for empowerment zones and enterprise communities that are designated pursuant to law in urban areas, rural areas, and Indian reservations, respectively.

(b) GRANTS. -- (1) AUTHORIZATION OF APPROPRIATIONS. -- There is authorized to be appropriated for fiscal years 1993 and 1994, to remain available until expended, a total of $513,500,000 for enterprise grants under this title. Of this amount, up to $50,000,000 may be used by the Secretary of Housing and Urban Development (A) to assist in the development of the comprehensive strategic plans described in section 302(b), or (B) to enable distressed communities to develop and implement coordinated economic strategies.

(2) TECHNICAL PROVISION. --This section constitutes the "subsequent authorizing legislation" referred to in Title XII of Public Law 102-368 (Dire Emergency Supplemental Appropriations Act, 1992).

(3) DOLLAR LIMITS. -- (A) EMPOWERMENT ZONES. -- No enterprise grant for an empowerment zone may exceed --

(i) $30 million per year in the case of an urban zone, or

(ii) $10 million per year in the case of a rural or Indian zone.

(B) ENTERPRISE COMMUNITIES. -- No enterprise grant for an enterprise community may exceed --

(i) $3 million per year in the case of an urban zone, or

(ii) $1 million per year in the case of a rural or Indian zone.

(c) GRANT TERM. -- Each enterprise grant shall be made available over a period of not to exceed five years.

(d) ADMINISTRATIVE COSTS. -- The appropriate Secretary is authorized to permit the local government to use enterprise grants for administrative costs, as defined by such Secretary, incurred in connection with empowerment zones and enterprise communities. Any such authority shall be included in the notice referred to in section 205 of this Act.

SEC. 102. LIMITATION ON USE OF FUNDS. -- No enterprise grant received under this title (or any State, local, or private assisted in connection with the zone or community shall keep such records as may be reasonably necessary to disclose the amounts and the disposition of enterprise grants received under this title and to ensure compliance with the requirements of titles I and II this Act.

(b) ACCESS TO DOCUMENTS. -- (1) BY THE APPROPRIATE SECRETARY. -- The appropriate Secretary shall have access for the purpose of audit and examination to any books, documents, papers, and records of the local government, State, persons, businesses, and other entities that are pertinent to assistance received in connection with, and the requirements of, titles I and II of this Act.

(2) BY THE COMPTROLLER GENERAL. -- The Comptroller General of the United States, or any of the duly authorized representatives of the Comptroller General, shall also have access for the purpose of audit and examination to any books, documents, papers, and records of the local government, State, persons, businesses, or other non-Federal entities that are pertinent to assistance received under, and the requirements of, title I and II of this Act.

(3) BY THE NATIONAL ACADEMY OF SCIENCES. -- The National Academy of Sciences and its contractors shall have access for the purpose of the study required by section 206 of this Act to any books, documents, papers, and records of the local government and State.

resources available in connection with a Federal empowerment zone or an enterprise community) may be used to replace other public funds previously used, or designated for use, in an empowerment zone or enterprise community.

SEC. 103. PERFORMANCE EVALUATION. -- (a) ANNUAL REVIEW. -- The appropriate Secretary, in consultation with the Enterprise Board established under title II, shall annually review the performance of the local government in achieving the benchmarks contained in its strategic plan approved pursuant to law. In the event of substantial noncompliance with a strategic plan or failure to make progress in achieving the benchmarks set forth therein, the appropriate Secretary, in consultation with the Enterprise Board, may take action, including withholding or reducing enterprise grant amounts or requiring appropriate changes in the strategic plan. The appropriate Secretary, in conjunction with the Enterprise Board, may approve changes in a strategic plan upon request of the entity or entities responsible for implementing the plan.

(b) REPORTS. -- The appropriate Secretary may require the local and State governments to submit such reports as may be necessary to carry out such Secretary's review responsibilities under subsection (a).

SEC. 104. RECORDS, REPORTS, AND AUDITS. --

(a) KEEPING OF RECORDS. -- The local government and the State for an approved empowerment zone or enterprise community under this Act and persons, businesses, and other entities

TITLE II -- ENTERPRISE BOARD; AUTHORIZATION AND DUTIES

SEC. 201. CREATION OF ENTERPRISE BOARD -- There is hereby authorized the creation of an "Enterprise Board" composed of the Secretaries of Housing and Urban Development, Agriculture, the Interior, the Treasury, Health and Human Services, Education, Labor, Commerce, Veterans Affairs, and Transportation; the Attorney General; the Administrator of the Environmental Protection Agency; the Administrator of the Small Business Administration; the Director of the Office of National Drug Control Policy; and up to 11 other members as may be designated by the President. The Secretary of Housing and Urban Development and the Secretary of Agriculture shall be co-chairs of the Enterprise Board.

SEC. 202. ESTABLISHMENT OF SELECTION CRITERIA. -- The Enterprise Board shall establish selection criteria for designating areas as empowerment zones and enterprise communities. The criteria shall be consistent with section 2 of this Act and shall require consideration of the effectiveness of the strategic plans and assurances to implement such plans submitted by entities that nominate areas to be designated as empowerment zones or enterprise communities pursuant to law. The Board shall publish the criteria in a notice in the Federal Register.

SEC. 203. PARTICIPATION IN OTHER FEDERAL ASSISTANCE PROGRAMS. -- The members of the Enterprise Board, to carry out the purposes of this Act, shall take such steps as may be necessary to facilitate the award and use of assistance within their jurisdictions in empowerment zones or enterprise communities. Such steps may include expediting review of any request for assistance in zones and communities and giving preference to requests for competitive assistance for use in zones and communities.

SEC. 204. WAIVERS. -- (a) IN GENERAL. --The Enterprise Board is authorized to waive any provision of Federal law or regulation administered by the Secretary of Housing and Urban Development, the Secretary of Agriculture, the Secretary of Health and Human Services, the Secretary of Labor, or the Secretary of Education, if the Board determines the waiver is necessary for achievement of the purposes of this Act with respect to an empowerment zone or enterprise community. No waiver may be granted under this section of eligibility and benefits under the Social Security Act or the Food Stamp Act, or of any law or regulation respecting public or individual health or safety, civil rights and non-discrimination, environmental protection, labor relations, labor standards, occupational health or safety, pensions, taxation, or any other law or regulation that the Attorney General shall by regulation determine. No waiver may be granted under this section that would have the effect of increasing direct Federal spending above levels that would have occurred in the absence of the waivers.

(b) CONSULTATION. -- Before approving a waiver of a requirement of law or regulation under subsection (a) that applies specifically to a program, the Enterprise Board shall consult with the agency responsible for the administration of the program. The appropriate Secretary may receive requests for waivers under this section and shall inform the requesting party of the disposition of the request.

SEC. 205. IMPLEMENTATION. -- In consultation with the Enterprise Board, the appropriate Secretaries shall, by notice jointly published in the Federal Register, establish such requirements as may be necessary to carry out the provisions of titles I and II of this Act. Such notice shall describe the criteria and procedures to be used by the Board in considering the waivers authorized by section 204 of this Act.

SEC. 206. STUDY OF EFFECTIVENESS.--(a) IN GENERAL.--The Enterprise Board shall within 3 months of the date of the enactment of this Act, cause a contract to be made with the National Academy of Sciences (the Academy) to conduct a study of the effectiveness of the grants authorized in title I of this Act, the waivers and other assistance authorized in title II, and the incentives provided in the Revenue Reconciliation Act of 1993 in achieving the purposes of this Act in empowerment zones and enterprise communities.

(b) CONDUCT OF STUDY.--If the Academy contracts for the conduct of the study described in subsection (a), the Academy shall develop a study methodology and shall oversee and manage the conduct of such study.

(c) REPORTS.--The Academy shall submit to the President, the Congress, and the Enterprise Board --

(1) not later than July 1, 1997, an interim report setting forth the findings as a result of such study, and

(2) not later than July 1, 2003, a final report setting forth the findings as a result of such study.

Both reports may include recommendations as to whether changes in the number or size of empowerment zones or enterprise communities would enhance the achievement of the purposes of this Act.

(d) FUNDING.-- There are authorized to be appropriated to carry out the study and reports described in this section such sums as are necessary for fiscal year 1994 and each succeeding fiscal year.

TITLE III -- PUBLIC SAFETY AND COMMUNITY POLICING ASSISTANCE ACT

SEC. 301. AUTHORITY TO MAKE PUBLIC SAFETY AND COMMUNITY POLICING GRANTS -- (a) In general. --

(1) The Attorney General is authorized to make grants in areas designated by law as empowerment zones or enterprise communities, to increase police presence, to expand and improve cooperative efforts between law enforcement and the community, and to help otherwise assure public safety.

(2) The Attorney General may also make grants under paragraph (1) of this subsection in areas in which, as determined

by the Attorney General, there is a need for additional public safety and policing related assistance.

(b) Preference. -- In making grants under subsection (a) of this section, the Attorney General shall give preference to areas designated as empowerment zones or enterprise communities.

(c) Consultation required. -- In making grants under subsection (a) of this section, the Attorney General shall consult with the Enterprise Board, as appropriate, to ensure that any assistance provided is consistent with any assistance provided under title I and any assistance authorized under title II.

(d) The authority extended to the Attorney General to make grants under this title supplements, and in no way affects or impairs, the authority of the Attorney General to make grants under the Omnibus Crime Control and Safe Streets Act of 1968, as amended.

SEC. 302. AUTHORIZATION OF APPROPRIATIONS.

(a) There is authorized to be appropriated to the Attorney General for grants under this title $250 million for the fiscal year ending September 30, 1993, and $250 million for the fiscal year ending September 30, 1994.

(b) Any funds appropriated under subsection (a) of this section shall remain available until expended.

(c) This section constitutes "subsequent authorizing legislation" referred to Title XII of Public Law 102-368 (the Dire Emergency Supplemental Appropriations Act of 1992).

SEC. 303. PERFORMANCE EVALUATION.

(a) Performance review. -- The Attorney General shall review the performance of each grant recipient under this title.

(b) Reports. -- The Attorney General may require a grant recipient to submit such data and information to the Attorney General as the Attorney General deems reasonable necessary to carry out the Attorney General's responsibilities under subsection (a) of this section.

SEC. 304. ACCESS TO DOCUMENTS

(a) By the Attorney General. -- The Attorney General shall have access for the purpose of audit and examination to any books, documents, papers, or records of a grant recipient under this title, as well as the records of State and local governments, persons, businesses, and other entities that are pertinent to assistance provided in connection with this title.

(b) By the Comptroller General. -- The provisions of subsection (a) of this section shall also apply with respect to audits and examinations of non-federal entities conducted by the Comptroller General of the United States or by an authorized representative of the Comptroller General.

SEC. 305. GENERAL REGULATORY AUTHORITY

The Attorney General is authorized to promulgate such regulations as the Attorney General may deem necessary to carry out the purposes of this title.

SEC. 306. CONFORMING AMENDMENT

Title XII of "An Act making supplemental appropriations, transfers, and rescissions for the fiscal year ending September 30, 1992, and for other purposes" (Public Law 102-368, 106 Stat. 1117, 1160-61), is amended by adding --

(1) ", including public safety and policing grants made under title III of the Economic Empowerment Act of 1993," after "rejuvenate neighborhoods"; and

(2) "public safety and policing grants made under title III of the Economic Empowerment Act of 1993;" after "Treatment Improvement Program under sections 301 and 509G of the Public Health Service Act, as amended by Public Law 102-321;".