

PUBLIC LIVES

By Joe Klein

'We Can Do It for Ourselves'

Los Angeles exploded the day Ava Jackson was supposed to get over. She had been nursing along her little cleaning-services company, taking odd jobs here and there in South-Central, and now she was about to sign her first real contract—to do regular maintenance on a dental-clinic building on Vermont Avenue. It was gone before I could sign, she recalls, and so was about 70 percent of the rest of my business. We got caught in the middle of it in our cars, stores getting robbed, people pulled out of cars, fire everywhere. It looked like the hell you had in nightmares about when you were a little kid. I can't understand why people would just like that. I kept asking, why? People would say, "There's a reason. I think the reason has to do with how people are raised."

Despite the riots, Jackson wanted to keep her modest dream—Quality Building & Maintenance Services—alive. Both she and her husband had always worked. She'd been a clerk in hospitals, but she couldn't imagine going back to that after the freedom of owning a business. And so she started going to meetings—there were all kinds of meetings for people with small businesses in the weeks after the riot. "We're gonna help you," they said. "Ava" recalls. "We're here for you. A lot of talk. A lot of nothing."

With one exception: an exotic and remarkable program—based on principles developed in the early 1960s by Mohammed Yunus for the Grameen Bank in Bangladesh—that loaned small amounts of money to poor women starting their own businesses, even those without any collateral. The program was run by the Coalition for Women's Economic Development (CWED) and it is part of what is becoming an international entrepreneurial brush fire. "We have 107 loans out, an average of about \$1,500 per loan [with 15 percent interest], to people who couldn't dream of getting money any other way," says Foresee Hogan Rowles, CWED's director. "And we have a repayment rate of 95 percent."

The results are not unusual. "This is an idea that actually works," says Jack Litzenberg of the Charles Stewart Mott Foundation, which has provided seed money for CWED and 28 other micro-enterprise loan programs across the country. (Hillary Clinton served on the board of one of them in Arkansas.) Most social programs can't deliver on what they promise. This doesn't promise the sky. It promises a ladder. And it isn't very expensive: the Mott Foundation has launched 1166 small businesses on an investment of about \$5 million.

The secret of the Grameen system—which is also proving successful in other parts of the world, especially Latin America—is reciprocal responsibility. To get her loan, Ava Jackson had to become part of a solidarity circle, with four other women. They had to meet regularly, scrutinize each other's business plans. "We're like the board of directors for five companies," Ava says, and, ultimately, agree to become jointly responsible for the repayment of all five loans. The rules are very strict, says Delphine Pruitt, who supervises solidarity circles for

CWED. No member of the circle gets a loan until all five are ready. They have to meet regularly for eight to 12 weeks to be certified. If any one of them doesn't show up, the meeting is canceled and the loans delayed. Same thing if you show up more than 15 minutes late without an excuse. I'm tough on that. Some circles go on for months, trying out new members, until they have five who are trust-worthy. They learn from each other and find out they have a lot of the same problems. I tell them: "You're on a mission, keep going. We're proving that we can do it for ourselves—and despite what you hear, these people are good business people. If you teach them how to do it, they can do it."

No glitz. Even after the riots, about 40 percent of CWED borrowers were hurt last April; some were wiped out. Jack Litzenberg of the Mott Foundation pitched in with an emergency grant to help some of those hardest hit to pay off their loans, and CWED continued to

grow. Remarkably, it has grown without support, or much interest, from Rebuild Los Angeles—the not-for-profit agency, led by Peter Ueberroth, that is supposedly in charge of post-riot economic development. Ueberroth has been looking for the sort of corporate big-bang support that helped him finance the Los Angeles Olympics in 1984. CWED comes from the opposite direction—not much glitz, no big announcements. It builds economic independence, and a sense of community, slowly but surely from the bottom up.

In Ava Jackson's solidarity circle—they call themselves Five Star Unlimited—a cleaning service, gift shop, travel agency, typing service and employment consultant are gestating on an initial investment of \$7,500. Several of the women have paid off their original loans ahead of schedule and have applied for the next step, loans of \$5,000. "I've almost paid off my first loan," says Ava Jackson, who also intends to apply for more. "I'm bidding on city and county jobs now. I won't tell you I'm over the hump, but hey, it's looking brighter every day."



Promising a ladder: Ava Jackson

PHOTOGRAPH BY MARYLYN WEISS

Challenge Grant Options for all 110 Zones

An Interagency Council will issue a challenge to all interested applicants to formulate, in full partnership with the affected community, a comprehensive strategic plan ("CSP") to enable enterprise to flourish in the targeted area.

The Interagency Council's challenge will include criteria for evaluating the CSP in order to fully inform interested applicants. The criteria include:

- coordination of local, state and federal programs and permits across jurisdictional lines and among categories in order to provide services essential to growth of enterprise on the most efficient, effective, entrepreneurial and, as appropriate, deregulated basis
- extent of tangible private sector commitment and participation (including for-profit firms, non-profits, universities and foundations) and complementary contributions, deregulation and incentives from state, region, and locality to promote growth of enterprise
- innovation in building off of existing assets and leveraging both current federal programs and new initiatives to provide access to capital, to assure safe streets [and schools?], to develop higher skills in the workforce, and to promote enterprise
- extent to which affected communities and residents are full partners in developing plan, share responsibility for implementation, and are empowered to develop self-sustaining institutions in which they have an ownership stake
- certification of insurance availability and elimination of all redlining
- effectiveness of CSP, and enforceability of commitments, to enable targeted area to become an integral part of--and to empower its residents to become full participants in--the local region's economy
- objective benchmarks for measuring progress in thus promoting enterprise, reporting results, and proposing mid-course corrections in CSP

In consultation with the Interagency Council, the Designating Secretary will

- review the CSPs submitted pursuant to these criteria
- designate both the Economic Empowerment Zones and the Enterprise neighborhoods, subject to Designating Secretary

approval of CSP

- approve, with such modifications as are mutually agreed with the applicant, each CSP.

This Challenge Grant process will enable applicants to reinvent themselves to promote enterprise, however, only to the extent that the federal government is just as responsive, innovative and flexible. With respect to new funds, we therefore propose an Enterprise Grant. This Grant will have only two strings: a requirement to adhere to basic anti-discrimination requirements and an obligation to use the grant in accord with the approved CSP without supplanting existing federal support.

There are three options with respect to existing federal programs:

- using the Stimulus Package as a model, seek legislative authority for the Secretaries on the Interagency Council to develop criteria for general waivers within specified guidelines and programs
- increase the Enterprise Grant beginning in FY 95 by an agreed amount and seek lower appropriations from a range of existing programs (a form of "set aside" that the Administration can initiate through its own annual budget process)
- seek immediate Congressional approval for general waivers across a specified range of programs relevant to promoting enterprise in a targeted area.

The third approach is most in keeping with our basic goal of reinventing government and would be strongly supported by the mayors and governors, if not also the community groups. We do not know, however, whether Congress would be as willing to go along with such a radical restructuring. It might also give pause to some of the Secretaries as they make plans to initiate new national programs.

The first approach will provide substantial flexibility and responsiveness compared to the current situation. With occasional White House intervention to resolve major policy disputes, the Designating Secretaries, working in cooperation with the Interagency Council, could

- develop reasonably general and flexible criteria for general waivers within programs and
- provide a single point of contact for all applicants.

In addition, the Secretaries of Labor, HHS, and DoEd wish to operate a series of demonstration projects in some number of the approved zones. These demonstrations would include general

challenge criteria related to the other elements of the CSP; and each Secretary, in cooperation with the Designating Secretary and the Interagency Council, will select the winners for these demonstrations based on the manner in which the applicant integrates its proposed demonstration into the overall CSP.

With the cooperation of Congress and the applicant constituents, we could proceed to implement the second alternative beginning in the budget for FY95 or FY96 in order to provide even more flexibility. By that time, we should also be in a better position to determine whether a more comprehensive "reinventing government" initiative based on waivers across programs or a series of cross-cutting challenge grants should be proposed.

Finally, the on-going process of review and evaluation would include four basic elements:

- annual review of the process of implementing the CSP, with Secretary review of such revisions to the CSP as the applicant may propose
- biennial review of progress in achieving the benchmarks established in the CSP, with such revisions to the CSP as the Secretary and the applicant may agree
- review of performance in promoting enterprise every five years, with Designation subject to termination or Enterprise Grant and other inducements subject to reduction by Secretary, unless CSP revised to satisfaction of Secretary and applicant
- independent evaluation contracted by National Academy of Sciences, with report to Congress, the President, and the nation at the end of years five and year ten.

To: Bruce Reel
Tom Sherrell
A: Gene

(1)

Shortly after you took office, Bob Rubin and Carol Rosco asked Gene Sperling and Bruce Reel to set up a joint NEC-DPC interagency working to work on community development and empowerment. We felt that it was critical to make this a joint NEC-DPC working group so that there existed a vehicle for considering a comprehensive strategy that could rethink all of urban policy. A joint-task force would ensure that we created a vehicle to consider the interconnections between all aspects of a comprehensive urban strategy -- from child care to access to capital to school reform to criminal justice. The ultimate aim is to rethink a comprehensive approach to community development and economic empowerment in both economically disadvantaged urban and rural areas.

The first piece of a new community development strategy is an economic empowerment piece. For the past two months, the policy shops at HUD, Treasury, Agriculture, Commerce and OMB have worked with NEC and the DPC in fleshing out the main components of the economic empowerment proposals you spoke of. In developing the attached proposals, Gene and Bruce asked the participants in the working group to seek to accomplish the dual-challenge of both stepping back and moving beyond the status quo with new thinking and innovation, while also stepping forward with specific proposals that could be passed this spring as part of your initial budget. The proposals that make up the community development and economic empowerment piece presented here -- enterprise zones and community development -- are bolder and more innovative than anything that has been presented before by a President or a presidential candidate. While we recognize that Congressional reality may force us to temper these more ambitious proposals, we nonetheless believe the attached proposals can be passed into law and make the first step in moving us in the right direction.

Principles:

In developing proposals for an economic empowerment piece, we relied on the basic principles you outlined in the campaign.

1. **Emphasis on Economic Growth:** The best urban policy, the best social policy, and the best anti-poverty policy is a comprehensive strategy for economic growth.

2. **Empower both Communities and People:** Some enterprise proposals, focus only on empowering and improving a specific economically depressed place. Others, call for ignoring place, and focusing on empowering people to prosper -- even through incentives that lead them to move out of the economically depressed area. We feel our zones should have vehicles to promote

②

both. Only empowering people, can allow depressed places to become even more isolated and depressed. Only focusing on improving the place, denies the importance of our strong values of empowering all Americans with the tools to prosper anyway and anywhere they want.

3. We Need To Reinvent Government: In this area more than any other, the old answers don't work anymore, and we need to launch a new era of bold, persistent experimentation. Therefore an essential an integral part of our enterprize zone proposal -- perhaps even its primary element -- will be a major focus on reinventing government and creating zones that will serve as laboratories of democracy where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

4. Bottom-Up Innovation: National leadership must come from the President, but the ultimate solutions must come from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers and reward them for initiative, innovation and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

5. Investment Should Be in Communities:

6. A Step in a New Direction: As several participants stated in the first meeting, there are many dead bodies on the past roads of reformers who sought to solve urban problems overnight. We start from the premise that we are not going to fix these problems overnight and that it will be up to the communities whether they will be fixed at all. But we can make a major step in a new and productive direction.

ECONOMIC EMPOWERMENT STRATEGY:

We believe that the economic empowerment portion of your comprehensive community development strategy should include four major pieces: economic empowerment zones, community development banks, CRA reform, and community partnerships against crime. As we mentioned above, this is only one section of what your administration hopes to accomplish in poor communities through health care reform, childrens' agenda, welfare reform and so on. Our empowerment agenda is meant to maximize the return on those investments and to help those communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all new and expanding businesses that generate new jobs.

The attached memos present detailed options for the economic empowerment zones and community partnerships against crime. A community development bank proposal will be ready next week.

(3)

ECONOMIC EMPOWERMENT ZONES:

During the campaign, you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October 1992, Congress passed HR11 -- with the leadership of then Senator Bentsen, which Bush then vetoed last November. HR11 would have provided federal tax relief for 50 enterprise zones. Democrats who were critical of providing straight tax relief added on \$500 million a year on a broad array of programs within each zone and called them "enhanced enterprise zones."

Reason for Reform: As the enterprise zones passed the Congress so recently, there is certainly a logic in simply sending back a bill that was a proven winner. Yet, our entire working group was unanimous in the view that the traditional forms of enterprise zones were simply not effective. In particular, the working group strongly believed that enterprise zones must 1) be more focused, because when they are spread too thin, there is too little resources to ever make a major difference. 2) Everyone believed that tax incentives by themselves would not be effective, and that we must move further in the direction of the comprehensive approach you spoke of during the campaign. 3) Everyone believed that we must also include elements that sought to empower individuals as well as communities, by offering tax credits and access to equity ideas for individuals. 4) We all agreed that reinventing government must be an integral part of each and every dollar spent in an economic empowerment zone.

CONSENSUS PROPOSAL:

This memo will proceed by first presenting what has emerged -- with only minor exceptions -- as a consensus proposal. Following that, we will present options concerning major decisions.

Summary of Proposal:

1. **Challenge Grant -- Reinventing Government:** There was a strong feeling that any efforts to spur empowerment in depressed areas could not be successful, unless there a centerpiece of our proposal was a reinventing government element. The obstacles in the current way of doing business was seen in the fact that there is too much duplication of effort, too little coordination of in the way that government currently does economic development, and no strategy for allowing local governments to target special strategies to their special economic needs. Federal, state, and local efforts take place with no coordination or overall strategy. Furthermore, there was a strong feeling that community economic development requires horizontal strategies, while too many of the federal programs are vertical, and do not take into account the need to coordinate different areas under on larger strategy.

②

Therefore, we propose that our entire economic empowerment proposal be run through a competitive challenge grant process. Applicants for the 10 economic empowerment zones would have to present a strategic economic development proposal that shows how it all the federal, state, local and private funds would be coordinated for an economic development proposal. Furthermore, they would have to aim for significant coordination of comprehensive strategies -- that would include both a capital access and work-force development plan. The selected zones would be given a chance to reinvent government through the following vehicles: one, they would be given an Enterprise Block Grant -- described below -- in addition to the tax incentives and two, they would be given significant flexibility and deregulation with existing funds, as to how they would implement their strategic plan. Finally, it is our hope that as we come forth with other reforms -- health care, education -- those Secretaries would wish to allow the zones to have further flexibility in experimenting or devising strategies to be used within the zone and coordinated to the zone's larger strategy.

2. 10 Economic Enterprise Zones and 100 Enterprise Neighborhoods: The working group was unanimous in its belief that the only way that we could ever know if the empowerment zone idea could be effective was to have greater resources in fewer zones. On the other hand, we also recognized the difficulties that could take in Congress with a bill that would go to only 10 cities nationwide. We therefore have designed a two-tier approach: We call for 10 small economic empowerment zones, that, have been chosen through the challenge grant process, would receive a considerable resources and deregulation to implement their plan. While 80% of the funds would go to the 10 zones, there would be 100 additional Comprehensive Neighborhood Zones. The 100 Comprehensive Neighborhood Zones would be communities that presented satisfactory plans through the competitive grant process. They would receive the same capacity for deregulation as those in the 10 Economic Empowerment Zones. Furthermore, they would be eligible for additional Community Development Banks, and funds from the pool of social investment available to the 10 Economic Empowerment Zones.

3. Comprehensive Approach: The working group agrees that we must continue in the direction of allowing a comprehensive approach that moves beyond reliance on only tax incentives. Indeed, there was widespread skepticism in the group concerning the efficacy of tax incentives alone to dramatically affect behaviors. On the other hand, most -- though not all -- of the members of the working group believed that while we should move toward comprehensive approach, our focus in the economic empowerment zones, should still focus on incentives and plans that have their anchor in economic development.

4. Elements of Economic Empowerment Incentives: In devising the list of incentives that would be part of our economic empowerment proposal, we divided them into the major revenue items -- which



are available only for the 10 Economic empowerment zones, and other items that would be available both in the 10 Economic empowerment zones and in the 100 Comprehensive Neighborhood Zones. Thus, the main elements of our comprehensive zones should be:

Capital Incentives:

Worker Training Incentives:

Resident Empowerment Incentives:

Empowerment Block Grants:

Partnerships Against Crime:

Strategic Plan Waivers: all 110 communities that presented satisfactory plans for economic empowerment zones should

*Bruce:
This is Gene's
Comments
- PJW*

Shortly after you took office, Bob Rubin and Carol Rosco asked Gene Sperling and Bruce Reed to set up a joint NEC-DPC interagency working to work on community development and empowerment. We felt that it was critical to make this a joint NEC-DPC working group so that there existed a vehicle for considering a comprehensive strategy that could rethink all of urban policy. A joint- task force would ensure that we created a vehicle to consider the interconnections between all aspects of a comprehensive urban strategy -- from child care to access to capital to school reform to criminal justice. The ultimate aim is to rethink a comprehensive approach to community development and economic empowerment in both economically disadvantaged urban and rural areas.

The first piece of a new community development strategy is an economic empowerment piece. For the past two months, the policy shops at HUD, Treasury, Agriculture, Commerce and OMB have worked with NEC and the DPC in fleshing out the main components of the economic empowerment proposals you spoke of. In developing the attached proposals, Gene and Bruce asked the participants in the working group to seek to accomplish the dual-challenge of both stepping back and moving beyond the status quo with new thinking and innovation, while also stepping forward with specific proposals that could be passed this spring as part of your initial budget. The proposals that make up the community development and economic empowerment piece presented here -- enterprise zones and community development -- are bolder and more innovative than anything that has been presented before by a President or a presidential candidate. While we recognize that Congressional reality may force us to temper these more ambitious proposals, we nonetheless believe the attached proposals can be passed into law and make the first step in moving us in the right direction.

Principles:

In developing proposals for an economic empowerment piece, we relied on the basic principles you outlined in the campaign.

1. **Emphasis on Economic Growth:** The best urban policy, the best social policy, and the best anti-poverty policy is a comprehensive strategy for economic growth.

2. **Empower both Communities and People:** Some enterprise proposals, focus only on empowering and improving a specific economically depressed place. Others, call for ignoring place, and focusing on empowering people to prosper -- even through incentives that lead them to move out of the economically depressed area. We feel our zones should have vehicles to promote

both. Only empowering people, can allow depressed places to become even more isolated and depressed. Only focusing on improving the place, denies the importance of our strong values of empowering all Americans with the tools to prosper anyway and anywhere they want.

3. We Need To Reinvent Government: In this area more than any other, the old answers don't work anymore, and we need to launce a new era of bold, persistant experimentation. Therefore an essential an integral part of our enterprize zone proposal -- perhaps even its primary element -- will be a major focus on reinventing government and creating zones that will serve as laboratoreis of democracy where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

4. Bottom-Up Innovation: National leadership must come from the President, but the ultimate solutions must come from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers and reward them for initiative, innovation and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

5. A Step in a New Direction: As several participants stated in the first meeting, there are many dead bodies on the past roads of reformers who sought to solve urban problems overnight. We start from the premise that we are are not going to fix these problems overnight and that it will be up to the communities whether they will be fixed at all. But we can make a major step in a new and productive direction.

ECONOMIC EMPOWERMENT STRATEGY:

We believe that the economic empowerment portion of your comprehensive community development strategy should include four major pieces: economic empowerment zones, community development banks, CRA reform, and community partnerships against crime. As we mentioned above, this is only one section of what your administration hopes to accomplish in poor communities through health care reform, childrens' agenda, welfare reform and so on. Our empowerment agenda is meant to maximize the return on those investments and to help those communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all new and expanding businesses that generate new jobs.

The attached memos presnete detailed options for the economic empwerment zones and community partnerships against crime. A community development bank proposal will be ready newx week.

ECONOMIC EMPOWERMENT ZONES:

During the campaign, you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October 1992, Congress passed HR11 -- with the leadership of then Senator Bentsen, which Bush then vetoed last November. HR11 would have provided federal tax relief for 50 enterprise zones. Democrats who were critical of providing straight tax relief added on \$500 million a year on a broad array of programs within each zone and called them "enhanced enterprise zones."

Reason for Reform: As the enterprise zones passed the Congress so recently, there is certainly a logic in simply sending back a bill that was a proven winner. Yet, our entire working group was unanimous in the view that the traditional forms of enterprise zones were simply not effective. In particular, the working group strongly believed that enterprise zones must 1) be more focused, because when they are spread too thin, there is too little resources to ever make a major difference. 2) Everyone believed that tax incentives by themselves would not be effective, and that we must move further in the direction of the comprehensive approach you spoke of during the campaign. 3) Everyone believed that we must also include elements that sought to empower individuals as well as communities, by offering tax credits and access to equity ideas for individuals. 4) We all agreed that reinventing government must be an integral part of each and every dollar spent in an economic empowerment zone.

CONSENSUS PROPOSAL:

This memo will proceed by first presenting what has emerged -- with only minor exceptions -- as a consensus proposal. Following that, we will present options concerning major decisions.

Summary of Proposal:

1. 10 Economic Enterprise Zones and 100 Enterprise Neighborhoods: The working group was unanimous in its belief that the only way that we could ever know if the empowerment zone idea could be effective was to have greater resources in fewer zones. On the other hand, we also recognized the difficulties that could take in Congress with a bill that would go to only 10 cities nationwide. We therefore have designed a two-tier approach: We call for 10 small economic empowerment zones, that would receive a considerable resources through or

smaller and

During the campaign, the three main proposals for our urban empowerment piece was community development banks and enterprise zones. In developing these proposals, Bruce and Gene have asked

the members of the working group to aim for the challenge of both
stepping back and

and lookingWhile we have

**EXECUTIVE SUMMARY
COMPREHENSIVE ENTERPRISE NEIGHBORHOODS**

I. Eligibility

• objective criteria for CEN--

Minimum Population	
Urban	15,000
Rural	5,000
Maximum Population	100,000
Maximum Area in Square Miles	
Urban	20
Rural	1000
Maximum number of non-contiguous areas	
Urban	3
Rural, if within state	3
Rural, if multi-state	0
Maximum number of States	
Urban	2
Rural	3
Minimum % of Households in Poverty	
In 50% of tracts	35%
In 90% of tracts	25%
In 100% of tracts	20%

Additional Rules:

1. CBD may be included iff at least 35% poverty rate
2. 0 population tract may be included
3. Tract with 2000 or fewer residents may be included iff zoned 75% or more commercial or industrial (unless CBD)
4. Secretary have discretion to waive iff substantial compliance with criteria and targeted area boundaries coincident with state or local enterprise designation prior to January 20, 1993 under state or local law

• a grant process to challenge the local applicant to develop a comprehensive strategic action plan, in partnership with the affected community, to reinvent the way local, state and federal government does business in order to enable private enterprise to flourish in even the most distressed areas

• each applicant must demonstrate that it has a comprehensive strategic action plan to provide services and

comprehensive strategic action plan to provide services and permits on a coordinated, responsive, entrepreneurial and, as appropriate, deregulated basis across local, state, and federal lines and among relevant programs

* evaluation and approval by Secretary of local action plans based upon the following criteria--

extent of partnership with affected local community in formulating and implementing strategic action plan

extent of innovation in using existing assets, marshalling public and private resources, and coordinating and leveraging existing federal programs, new investments, and Enterprise Inducements (a) to provide safe streets in the neighborhood, (b) to expand enterprise and jobs in the neighborhood, (c) to encourage self-sustaining institutions in which residents have a full stake, (d) to make the neighborhood a dynamic part of the relevant local or regional economy, and (d) to connect residents in the neighborhood to jobs in the relevant labor market

extent of tangible private sector commitment and contribution from the region to increasing enterprise;

the effectiveness, efficiency, quality, coordination, and entrepreneurial innovation in delivery of all services (including public safety, education and training, small business assistance, human services, family support, learning, work and entrepreneurial skills of all residents, physical infrastructure, permitting and, as appropriate, deregulation) to promote enterprise;

the extent to which affected communities and residents (including those who are working poor, poor and unemployed) of the targeted area (a) participate in developing plan, (b) take responsibility for its implementation, (c) are full stakeholders in the resulting enterprise, and (d) participate in a course of action to achieve personal and family self-sufficiency, prevention of drug and alcohol abuse and teen pregnancy, and responsibility of every parent to support and nurture their offspring;

certification of insurance availability for the targeted neighborhood;

extent of building access to capital, use of community development financial institutions to make commercial, business, housing and consumer loans, connection to financial networks to promote community investment, worker controlled business, and enterprise in the neighborhood;

rehabilitation and contribution of publicly owned property and infrastructure to promote enterprise;

complementary state and local action, regional coordination, fit with area transportation, and other regional planning and cooperation to promote enterprise within the targeted area and connection between area residents and the relevant labor market

use of available federal, state and local bonding authority, credit enhancement, securitization and tax credits to promote enterprise;

program to implement the National Education Goals;

the strength and quality of the state and local, university, foundation, non-profit and private sector contributions and commitments and the commitment not to supplant other federal support with federal enterprise inducements

the effectiveness and enforceability of the commitments in the local action plan to enable CEP to become an integral part of the local economy and to empower its residents to become full participants in regions economic mainstream

the relative level of distress in the neighborhood

performance objectives and measures, reporting on results of action, evaluation and plan for mid-course corrections

II. Designation and Operation

- Designation of 60% of CEP's by HUD Secretary and 40% by Agriculture Secretary, in consultation with relevant Secretaries, at Secretary's discretion

- Review, negotiation and approval of each local Strategic Action Plan by the designating Secretary

- Designating Secretary acts as single point of contact to assure flexibility and necessary waivers across agencies to enable Designee to coordinate and to target all federal support and programs within the CEP as Designee sees fit consistent with approved Strategic Plan

- Ten-year duration

- Performance review by the Designating Secretary every year with report on progress to each designee

- Based upon review of results at the end of years 4 and 7, Enterprise Block Grant subject to reduction or elimination or Designation subject to termination by Designating Secretary, unless local action plan revised to satisfaction of Secretary

III. Federal Inducements

A. Available to all CEP's

Defined Savings Plan

Community Lending Initiative

Community Policing, Safe Streets, Cops on the Beat

Eligible for applying for innovative federal experiments pursuant to challenge grant
(see attached list)

Tax exempt Private Facility Bonds

Low Income Housing Tax Credit (130%)

Enterprise Block Grants for
planning, start-up and evaluation

• Available only to Demonstration CEN's

New Frontier Homesteading--Community Investment Corporation and Worker Controlled Enterprise

Credits for employers in targeted area for wages and expenses for training residents of CEP

[Targeted ETC for employers of CEP residents in up to 3 urban (including 1 under 500,000) and 1 rural CEN]

Capital and investment incentives for Qualified CEP Business and Qualified CEP Property --

Property expensing (section 179)

Accelerated depreciation

IV. Evaluation and Sunset

- Independent review and evaluation of the process and results of CEP, with detailed review and reporting of results, findings, and recommendations, first, in 1998 and, again, in 2003 following the decennial census

- Periodic review by the Designating Secretaries, with the Interagency Working Group, and report to the President and to the Congress of the results, with mid-course corrections as required

- Sunset for the CEP legislation at the end of ten years.

LIST OF FEDERAL CHALLENGE GRANTS FOR WHICH
ENTERPRISE NEIGHBORHOOD ELIGIBLE TO APPLY

Foreign Trade Zone (Commerce)

Minority Business, Small Business, and Microenterprise (SBA)

Make Work Pay--earnings supplement, medical protection, child care and transportation, like New Hope Project in Milwaukee (HHS, Treasury)

JOBS Distressed Area Demonstration--intensive, longer term training and community support, job matching throughout labor market, with many more immediate benchmarks, like Project MATCH in Chicago (HHS)

JOBS welfare-to-work training, earnings supplements and employer wage and training incentives (HHS)

Guarantee jobs, require training and, as a last resort, work in a community works program (HHS)

Make JOBS open to two parent families (HHS)

Help young people become self-sufficient before have children (HHS)

Parents Fair Share Projects and other pilots to assure that fathers work and provide support for their children (HHS)

Youth Fair Chance, YouthBuild, and School-to-Work Transitions--link youth apprenticeship and education to economic and community development projects in the CEN (DOL, HUD and DoEd)

One Stop Shopping and Opportunity Cards for job search, retraining and other services (DOL)

2-year Employment and Training Tax Credit for residents of CEN (not tied to categories of TJTC) (DOL and Treasury)

Access to Opportunities, including transportation and Section 8-Moving to Opportunity vouchers (HUD, HHS, DOT)

HOME and PHA Tenant management and ownership (HUD)

Enterprise School Communities (HUD, HHS, DOL, Commerce)

Drug education and rehabilitation-to-work (HHS, DOL, DOJ)

DRAFT 5 3/26

*Bruce:
This is getting
there. Gene asked
for a copy last
night... he liked it
in general. He'll call
you tomorrow. - PAUL*

PRIVILEGED & CONFIDENTIAL

March 29, 1993

MEMORANDUM FOR THE PRESIDENT OF THE UNITED STATES

FROM: THE COMMUNITY EMPOWERMENT WORKING GROUP

SUBJECT: OVERVIEW OF ENTERPRISE ZONE PROPOSAL

I. ACTION-FORCING EVENT

Almost one year ago, you toured Los Angeles after the riots and predicted that despite all the media attention and Presidential fanfare, a year would pass and nothing in South Central would change. You were right. With the anniversary of the L.A. riots just a month away and a verdict in the police officers' trial likely in 2-3 weeks, we urge you to announce your long-term community empowerment strategy in the next 10 days -- before these events take place.

II. BACKGROUND

Shortly after you took office, Bob Rubin and Carol Rasco asked Gene Sperling and Bruce Reed to set up an interagency working group on community empowerment to flesh out your enterprise zone and community development bank proposals. For the past two months, the policy shops at a half dozen departments have been working together on the project. The attached proposals incorporate ideas from HUD, Treasury, Agriculture, Commerce, OMB, NEC, and DPC as well as outreach efforts to community groups and business.

In developing these proposals, we relied on the basic principles you outlined in your campaign:

1. The best urban policy, the best social policy, and the best anti-poverty policy is economic growth. We don't need another urban aid package; these proposals ought to be part of a larger national economic vision to restore urban and rural communities by empowering people to join the economic mainstream.

2. In this area, more than any other, the old answers don't work anymore, and we need to launch a new era of bold, persistent experimentation. We envision a national network of

economic empowerment zones that will serve as laboratories of democracy, where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

3. In the end, the solution will come not from Washington, but from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers, and reward them for initiative, innovation, and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

We're not going to fix these problems overnight, and it is up to the communities themselves whether we'll fix them at all. But we can change the disastrous economic policies of the last 12 years; we can change the face of government in communities where three decades of federal efforts, however well-intentioned, has done so little good; and we can begin to change the something-for-nothing ethic that has permeated our culture from top to bottom in recent years.

*Comprehensive - more to come
standing point*

III. PROPOSALS

We believe that your community empowerment strategy should incorporate three main proposals: economic empowerment zones; community development banks; and community partnerships against crime. This is only a portion of what your administration hopes to accomplish in poor communities, through health care reform, welfare reform, Head Start, and so on. Our empowerment agenda is meant to maximize the return on those investments, and to help communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all, new and expanding businesses that generate new jobs.

The attached memos present detailed options for the economic empowerment zones and for the community partnership against crime. A community development bank proposal will be ready next week. Here is an overview of the major programs as we see them:

* **Economic Empowerment Zones:** We call for 10 Economic Empowerment Zones that will receive substantial tax incentives for job creation, and 100 Enterprise Neighborhoods that would qualify for a smaller range of incentives and inducements. Communities will compete for Enterprise Challenge Grants that give them broad leeway to design and carry out their own plans, but also hold them accountable for measurable results. We will give businesses incentives to create jobs and individuals incentives to take them. These 110 communities will be natural candidates for community development banks and community policing, and could serve as ideal laboratories for a wide variety of innovative federal experiments already in the works, including national service, welfare reform, and youth apprenticeship.

* Community Development Banks: (explain where we are)

* Community Partnership Against Crime: (explain HUD proposal)

Together, these proposals move beyond the old left-right debate that the answer to every problem is more federal spending on the one hand or more tax breaks on the other. They offer real opportunity to real people: a savings account, a cop on their block, an employment voucher that will reward any business for giving them a job.

EZ's

We have consulted w/members → HR 11

Our E-zone proposal makes 4 ~~basic~~ fundamental innovations

1. Reinventing Govt: No applicant → single \$

2. Targeted Zones: Dilation

~~3. Results/ambition~~

3. Labs for Change/Mapacts for Innovation →

4. Empowerment Incentives

IV. ENTERPRISE ZONE OPTIONS

~~substantial~~
substantial

During the campaign you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. Our proposal would meet that commitment by providing for 110 enterprise zones: 10 Economic Empowerment Zones with special tax incentives and inducements, and 100 other zones — comprehensive Enterprise Neighborhoods ~~with a mix of less expensive incentives and inducements.~~ ^{with a mix of} Our consensus proposal combines both the tax and regulatory relief approach of the Republicans with the comprehensive approach of the Democrats, with an added twist — tax incentives to empower residents in zones and give them a stake in the economic success of their communities.

The Plan for a New Direction includes \$4.1 billion for new investment in ^{enterprise zones,} ~~such a plan,~~ while an additional \$1 billion is in the baseline for FYs 93-94.

History

Since the early 1980s, 36 states and the District of Columbia have enacted enterprise zone legislation, most offering only tax and regulatory incentives. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October of 1992, Congress passed H.R. 11 (the urban aid tax bill that Bush vetoed last November), which included a proposal for ^{SP} "enhanced enterprise zones." ~~H.R. would have provided federal tax relief for 50 zones. However, liberals opposed providing straight tax and regulatory relief — it sounded too much like trickle-down, and would have been a feather in the conservatives' cap. So they torpedoed straight tax relief, and added on increased social spending by \$500 million a year on a broad array of programs, within each zone.~~

which provided not only tax relief but

Option 1 -- 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods: We recommend building upon the enhanced enterprise zone approach. Our consensus proposal designates up to 10 Economic Empowerment Zones that will receive all of the tax incentives and block grant inducements, while allocating a less expensive mix of inducements to a larger number, up to 100 Zones or Enterprise Neighborhoods (ENs). We believe a small number of demonstration areas is necessary because several of the tax incentives and program inducements we propose have never been tried, are costly, or may have unpredictable results. This proposal allows for true experimentation: only what works and proves cost effective will be expanded at a later date. This proposal also meets your campaign pledge to create 75 to 125 zones, while targeting the funds to insure success.

All applicants would apply through a single challenge grant process for designation as a Zone or Demonstration Zone. Up to a total of 110 Zones could be established in the first year, within current budget restraints.

Option 2 -- 25 to 50 Demonstration Zones: Secretary Bentsen proposes a total of 25 to 50 Demonstration Zones which would be selected over the next five years, i.e., 5 to 10 per year. All would have the same mix of tax incentives as in the first option, but the amount of the Enterprise Block Grant available for each Demonstration Zone would be reduced substantially.

The Interagency Working Group opposes this proposal. First, we believe it relies too much on tax incentives and provides too little in Enterprise Block Grant funding for each Zone. Second, a wave of mandatory tax expenditures will make the Enterprise demonstration much more expensive. Third, it would expend a great deal of resources before learning whether Zones with substantially reduced tax expenditures can work. Finally, we believe the staggered selection process and the fewer total number of Zone's will not capture the will of Congress nor garner the full support of our constituents as readily as the first option.

Specific Tax Incentives and Inducements

The range and mix of tax incentives, combined with the relative magnitude of the Enterprise Block Grants, provide for an infinite number of options. There are, however, important policy choices between the types of tax incentives to be included, the relative size of the Block Grants compared to the cost of tax incentives, and the total size of the budget.

In the following discussion, we have attempted to provide sufficient detail to inform your decision. In particular, we summarize the full range of tax incentives and other inducements that we recommend so that you will have the context for our evaluations of the decision options presented. If you want to evaluate the tax policy choices in greater depth, we provide a separate appendix prepared by Treasury, which the Working Group has annotated only where there are major policy differences.

1. Tax incentives and inducements for Economic Empowerment Zones:

We recommend offering the following additional inducements to the limited number of Economic Empowerment Zone's:

a. Capital Tax Incentives:

We recommend a cost recovery approach that is designed to aid enterprises which employ a minimum of 35% Zone residents. The proposed cost recovery includes two components:

- increased property expensing under Section 179 for qualifying investments in depreciable property, up to a \$75,000 cap, phasing out for larger investments above \$300,000)

- accelerated depreciation for all investments in tangible property in the Zone.

These cost recovery proposals complement the tax incentives contained in your proposed budget. They will provide substantial incentives that will be particularly valuable to starting or expanding micro-enterprise, small business, and community-based firms.

Cost recovery vs. An Enhanced Investment Tax Credit ("ITC"): One member of the Working Group has urged consideration of an ITC (e.g., 50% spread over ten years) for qualifying investments.

The ITC would provide a far greater federal subsidy for larger physical improvements in the Zone. However, it could produce undesirable tax sheltering effects that do not benefit the Zone. Cost recovery is less expensive, will aid substantially greater numbers of small and medium sized businesses, and is more efficient than the ITC. On balance, we believe that cost recovery is superior. [Does HUD want to include the ITC in the decision memo?]

b. **Employment and Training Credits("ETCs"):** ETCs provide an effective means of lowering the costs of doing business for employers. We recommend allowing each employer to take advantage of either

- a multi-year ETC for employers located in the Demonstration zone that is based upon zone resident employee wages and qualifying expenses for education and training; or
- a one or two-year Targeted ETC ("TETC") for employers, whether or not located within the Demonstration zone, that is based upon resident Zone employee wages and qualifying expenses for education and training. (The TETC has important empowerment value for Zone residents because it provides them with a bounty to join the economic mainstream wherever jobs can be found.)

As set forth in Tab B, there are several variations that may be considered in crafting these two ETCs.

"Blanket" vs. "Incremental" ETC: The ETC can be applied to all zone resident employees ("Blanket ETC") or be "incremental," i.e., applicable only to increases in employment of zone residents (where total employment also increases). The Working Group narrowly favors the Blanket ETC.

The Incremental ETC costs substantially less than the Blanket ETC and is more efficient in rewarding expansion in employment. To prevent substitutions of existing employees for zone residents, this credit would be based on increases in total employment and on increases in zone resident employment. Yet, the Incremental ETC would be much more difficult for employers to understand and would involve much more paperwork. It also would

disadvantage existing zone businesses, which will receive credit only for expansion in employment, while business that are new to the Zone would receive credit for all of their resident employees. (Unfortunately, this disadvantage may also cut across racial lines, with existing zone businesses likely to be predominately minority.)

The costs of the Blanket ETC would be controlled by not extending it to non-zone resident employees and by phasing it out after the seventh year of the zone. However, the Blanket ETC also has disadvantages. The non-resident exclusion creates an incentive for employers to substitute Zone residents for non-resident employees -- which may have unpleasant ramifications. The Incremental ETC avoids this problem by being tied to increases in total employment. But, as noted, the incremental ETC has other problems.

Although Treasury is opposed to the Incremental ETC, we recommend that it be considered if it is necessary to preserve enough budget authority for the empowerment incentives described above and for a reasonable level of Enterprise Block Grants, as described below.

c. Empowerment Tax Incentives:

We propose providing interest exclusions to spur investments in community investment corporations and worker controlled enterprises.

- Resident-owned Community Investment Corporations (CICs) could be spurred through interest exclusions. Interest on Loans made to CICs, 51% of which are owned Zone residents, for purchase of qualifying Zone tangible assets could be excluded from taxation to the lender. This will empower CICs, for example, to acquire and develop land, to purchase TV and Fiber Optic cable serving their communities, and to participate fully in new information networks. The CIC provides a way for Zone residents to "homestead" assets and to gain control of their economic destiny.
- Worker Controlled Enterprises (WCEs) could also be spurred through interest exclusions. Interest on loans to permit resident workers to start, acquire and expand WCEs, owned 51% by resident employees, could also be excluded from taxation to the lender. With full disclosure, worker control and annual reporting of individual share values to each Zone shareholder, the Shareholder Association of each such WCE would empower resident employees with a full ownership stake in their own businesses, while eliminating the abuses common to ESOP's.

Both of these empowerment incentives will be enhanced by the availability of access to capital provided by the new federal community lending initiative. Moreover, loans will only be made when an independent, third party lender determines that the proposed investment by

the CIC or WCE is likely to work.

Dissenting View: These tax incentives for empowering Zone residents to become full stakeholders in shaping their own enterprise destinies are new, and, therefore, largely untried. Treasury opposes these tax incentives because their impact is uncertain. The consensus of the Working Group, however, is that such empowerment incentives are central components of the New Direction you have set for the nation. At the very least, experimentation with such potentially empowering change is warranted in the Demonstration Zone's.

d. **Block Grants.** We recommend that the Demonstration Zone's receive a substantial Enterprise Block Grant, on the order of magnitude of \$100 million to \$200 million per Zone for FY 93-98. We also recommend that the total amount of the tax incentives for each Demonstration Zone be approximately the same dollar amount as the Enterprise Block Grant. Thus, the size of the Enterprise Block Grant depends on the mix of tax incentives chosen and the total budget that you wish to provide for the Enterprise Proposal during the five-year Budget window.

2. **Tax incentives and other inducements for all Zones (Enterprise Neighborhoods & Economic Empowerment Zones):**

We recommend that the following inducements be offered to all Zones:

a. **Tax Exempt Private Facility Bonds:** In order to promote investment in buildings, plant, and equipment, all Zones will be able to exempt 50% of private facility bonds from State caps, and these Zone facility bonds will be excepted from the section 265 bank deductibility prohibition. Each primary user (e.g., a business firm) will be limited to \$3 million in any one Zone and a total of \$20 million across all Zone's.

b. **Resident Empowerment Savings Incentives:** This stakeholder proposal makes this enterprise zone plan uniquely different from traditional enterprise zone proposals. A 50 percent credit would be available for a contribution by an employer, Community Investment Corporation, or CEZ Worker Controlled Enterprise to a Defined Savings Plan ("DSP") on behalf of employees or members who are Zone residents. Participating Zone residents could also contribute to the DSP on a tax deferred basis up to a limit of \$2,000. These savings could be withdrawn (or borrowed) without penalty to pay for education, purchasing a first home, or starting a small business. This will provide the first proving grounds for implementing your pledge to establish Individual Development Accounts to empower low-income Americans to take the first steps toward economic self-sufficiency.

c. **Eligibility for Participation in Innovative Federal Experiments:** Each Zone will also be eligible to compete for a variety of special challenge grants. For example, DoEd proposes to provide funds for several comprehensive Enterprise School Communities to implement the National Education Goal and to allow Zones to submit a strategic action plan for usage of such funds. DOL, DoEd, and HHS will also offer a variety of demonstration opportunities for local innovation in school-to-work, apprenticeship, welfare-to-work, unemployment-to-work, and drug prevention and rehabilitation-to-work. HUD and Agriculture will also make available similar opportunities for local innovation, including, for example, Section 8 vouchers, Moving to Opportunities, HOME, and Youthbuild. The number of Zone's that will be able to participate in such demonstrations will vary by federal initiative.

d. **Community Policing:** All Zone's will be eligible for additional support for Safe Streets from the portion of the FYs 93-94 baseline Enterprise funding reserved for meeting your pledge of 100,000 additional cops on the beat.

e. **Community Lending:** All Enterprise Zones will be eligible to participate in your community lending initiative.

b. **Expansion of the Low Income Housing Tax Credit:** Finally, all Zones will be viewed as a "difficult to develop" area for purposes of increasing the Low Income Housing Tax Credit to 91 percent of present value from 70 percent of present value. [This is subject to Treasury calculating the cost of offering this to all as opposed to only the Demonstration Zones.]

This bundle of inducements available to all Zone's is substantial. When combined with the benefits resulting from reinventing the way the federal government does business, we believe that there will be intense competition from local communities to be designated a Zone.

Depending on the extent to which you wish to target available Enterprise Block Grant funds on Demonstration Zones, a much smaller Block Grant could also be made available to all Zones, for example, to defray the costs of local and community planning, start-up and local evaluation. We also believe, however, that many foundations and universities will step forward to pay for or to provide these essential activities in many places.

3. **An Alternative Approach**

The majority of the Inter-agency Working Group recommends the use of tax incentives in your enterprise zone proposal. However, one agency, OMB, has reservations concerning the use of tax incentives and has suggested an alternative approach.

OMB argues that tax incentives will not be very effective in stimulating new business development and jobs in distressed areas or, if successful, will be too costly to be widely replicated in other areas.

In addition, OMB believes that committing substantial resources to an Enterprise proposal before we have had time to think through and develop a consensus on the Administration's urban and rural development strategies is premature and, given general budget constraints, may preclude any other major initiative to help cities during your Administration.

OMB proposes a "no cost" option which, in its view, meets your campaign promise to create enterprise zones while preserving the opportunity to use the resources originally committed to enterprise zones to fund a major urban/rural development or welfare reform initiative.¹

OMB's option would:

- provide no, or minimal tax incentives;
- provide no new spending for enterprise block grants;
- concentrate, in a small number of zones, discretionary resources from existing programs (many of which are substantially increased by the proposed budget) through an ear-marking or set aside mechanism for Enterprise Block Grants.

The Interagency Working Group opposes OMB's proposal. We believe that a mix of tax and spending inducements is needed to ensure the success of enterprise zones. Both the stakeholder and business tax incentives included in our the consensus proposal insure that this is not simply another spending initiative, but rather a new approach to community empowerment and development.

D. What should be the Total Budget?

A good starting point for making a decision is the total budget. As set forth in the tables at

¹ OMB has advised that the 4.1 Billion in tax expenditures included in the proposed budget for Enterprise Zones can be treated either as tax expenditures or direct spending in the future. OMB advises that Congress, as a part of Budget Reconciliation, must lift the cap on discretionary spending included in the Budget Enforcement Act in order to implement other investments in the proposed budget. As a result, OMB advises that shifting a portion of budgeted Enterprise spending from tax expenditures to direct spending should present no problem.

Tab C, we present four options:

- \$0 (the OMB no-cost alternative)
- \$3.3 Billion (Incremental ETC)
- \$4 Billion (Blanket ETC of 15% on first \$20,000)
- \$5.1 Billion (Blanket ETC of 20% on first \$20,000, plus a second year of the TETC)

Each option besides the no-cost alternative includes the empowerment incentives described above and divides the total costs between tax incentives and other inducements evenly.

The \$3.3 Billion alternative uses the Incremental ETC. The \$4 Billion option uses a Blanket ETC based on 15% of the first \$20,000 in wages and qualified education and training expenses. The \$5.1 Billion option uses a blanket ETC based on 20% of the first \$20,000 in wages and adds a second year for the TETC.

With the exception of the OMB model, we believe that the choice among these models is basically a budget issue for your decision -- unless you view one or another of the tax incentives discussed as substantially better or worse.

IV. CONCLUSION

Our Enterprise Proposal seeks to implement your call for a new direction by delivering a real message of hope throughout the land, especially to persons in the most distressed places in urban and rural America.

V. DECISION

A. Select One:

- Interagency Enterprise Proposal
- "No-cost" OMB Proposal
- Reject all proposals, Discuss Further

B. If Interagency Proposal Selected, Select one from each category:

1. Number of Zones

____ 10 Demonstration Zone's and 100 Enterprise Zone's

____ 25-50 Enterprise Zone's

2. Approximate 50-50 balance in tax incentives and Block

Grants

____ Accept

____ Reject, Discuss Further

3. Total Approximate Budget

____ \$3.3 Billion

____ \$4 Billion

____ \$5.1 Billion

____ Discuss Further

THE WHITE HOUSE
WASHINGTON

March 20, 1993

*More emphasis on challenge grants
Decide on a name*

MEMORANDUM FOR THE PRESIDENT OF THE UNITED STATES

FROM: THE INTER-AGENCY ENTERPRISE WORKING GROUP
SUBJECT: ENTERPRISE PROPOSAL

I. ACTION-FORCING EVENTS:

You pledged to create comprehensive enterprise zones which combine tax incentives with new Community Development Block Grants to help revive economically disadvantaged areas in rural and urban America. The Plan for a New Direction includes \$4.1 Billion for new investment in such a plan, while an additional \$1 Billion is in the baseline for FYs 93-94.

The vetoed 1992 Revenue Act, H.R. 11, included a compromise providing for "Tax Enterprise Zones." Several Members of Congress are anxious to introduce new legislation, but the key Committees have agreed to defer any action until the spring recess in order to receive your enterprise proposal.

The human toll and economic burden suffered in many distressed urban cores and rural places is immense. Although the deterioration has been decades in the making and cannot be remedied overnight, you pledged to embark on a new direction now.

Guided by your call to reinvent government, to empower opportunity, to build community and to demand responsibility, a joint NEC-DPC Interagency Working Group has prepared a bold new enterprise proposal for your review and decision on several issues.

II. THE PROPOSAL

Major principles of our proposal are:

- No applicant will receive a single dollar of federal enterprise support before it demonstrates that it will reinvent the way local, state and federal government does business within its [Comprehensive Enterprise Place]

NO

Empowerment Communities

("CEP").¹

- Each applicant must demonstrate that it has a comprehensive strategic action plan to provide services on a coordinated, responsive, entrepreneurial and, as appropriate, deregulated basis across local, state, and federal lines and among relevant programs. Without such a reinvention of government at all levels, no amount of federal enterprise support will enable private enterprise to flourish in urban and rural communities which are most distressed.
- Each applicant must demonstrate that it has empowered the affected community within the CEP to be a full partner, from the beginning, in the formulation and implementation of the strategic plan.
- Each strategic action plan must demonstrate the extent to which state and local governmental, private sector, non-profit, and community resources will be marshalled to expand enterprise in the CEP. Each strategic plan must also explain how all existing assets within the CEP and the available federal resources (including current programs, substantial new investments in people and infrastructure, and proposed enterprise support) will be leveraged to expand enterprise in the CEP.
- Based on a competitive selection process, designated CEPs will then receive a formidable bundle of federal enterprise support and the opportunity to implement other federal programs on an integrated basis as each designee sees fit. The designating Secretary will provide a single point of contact to provide necessary waivers and coordination across all federal departments.
- Each designated CEP will be accountable for the results of its actions pursuant to periodic review by the designating

¹ We use the word "place" instead of "zone" because the latter has negative connotations, e.g., "War Zone", "DeMilitarized Zone", "Adult Entertainment Zone", etc. Several mayors and community groups also resist the notion of targeting a specific "zone" that may be viewed as a garrison isolated from its neighbors if it succeeds and a ghetto if it fails.

We would like to substitute a more welcoming word that signifies our goal of empowering a distressed area to become an integral part of the local economy and its residents to become full participants in the economic mainstream. Words such as "place," "area," "community," or "partnership" might be used as a substitute for "zone."

What does this mean?

boring

Secretary. What works will be rewarded by continued support. What doesn't work will be reported, and federal enterprise support will be redirected.

good

CEPs will be laboratories for change. We expect to be surprised by the results when people are empowered to make private enterprise an engine for growth in their local communities, and when government at all levels is reinvented to be fully responsive to local partnerships, workers, families, entrepreneurs and firms. Independent evaluation will enable all to learn from experience of the CEPs.

Federal Enterprise support will include:

-- enterprise block grants;

-- community policing;

-- access to a bold, new community lending initiative and to private capital;

-- eligibility for participation as a demonstration area in additional federal initiatives, for example, comprehensive community schools to implement the National Education Goals, family support and welfare-to-work, youth apprenticeship, unemployment-to-work, drug prevention and rehabilitation-to-work, and lifelong learning;

-- a bundle of targeted capital, wage and training tax incentives and opportunities to promote the expansion of enterprise in the CEP and to empower CEP residents to become full participants in their dynamic local, regional and national economies.

need a clearer snapshot picture of what the proposal entails

Attached at Tab A is a summary of the specifics of the proposal.

We believe that this Enterprise Proposal will convey a message of hope to all Americans, particularly those in the most distressed places in rural and urban America: reinvent government, empower opportunity, demand responsibility, build community, and provide the basic infrastructure to enable private enterprise to flourish.

III. ISSUES FOR DECISION

A. Should there be any tax incentives and new federal spending in your enterprise proposal?

Combine w/SC.

With the exception of OMB, the Inter-agency Working Group is unanimous in recommending this proposal to you.

OMB argues that tax incentives will not be very effective in stimulating new business development and jobs in distressed areas or, if successful, will be too costly to be widely replicated in other areas.

Not so much detail

In addition, OMB believes that committing substantial resources to an Enterprise proposal before we have had time to think through and develop a consensus on the Administration's urban and rural development strategies is premature and, given general budget constraints, may preclude any other major initiative to help cities during your Administration.

OMB proposes a "no cost/reinventing-Government" option which, in its view, meets your campaign promise to create enterprise zones while preserving the opportunity to use the resources originally committed to enterprise zones to fund a major urban/rural development or welfare reform initiative.² OMB's option would:

- provide no, or minimal tax incentives;
- provide no new spending for enterprise block grants;
- concentrate, in a small number of zones, discretionary resources from existing programs (many of which are substantially increased by the proposed budget) through an ear-marking or set aside mechanism for Enterprise Block Grants.

The Interagency Working Group opposes OMB's proposal. We believe that OMB's proposal would leave the playing field to Congress and to the compromises of the past when your call for a new direction should be the message that rings throughout even the most distressed places in rural and urban America.

B. What number of CEPs should be proposed?

- What's a CEP?*
1. 10 Demonstration CEPs and 100 CEPs: We recommend designating up to 10 Demonstration CEPs that will receive all of

² OMB has advised that the 4.1 Billion in tax expenditures included in the proposed budget for Enterprise Zones can be treated either as tax expenditures or direct spending in the future. OMB advises that Congress, as a part of Budget Reconciliation, must lift the cap on discretionary spending included in the Budget Enforcement Act in order to implement other investments in the proposed budget. As a result, OMB advises that shifting a portion of budgeted Enterprise spending from tax expenditures to direct spending should present no problem.

the tax incentives and block grant inducements, while allocating a less expensive mix of inducements to a larger number, up to 100 CEPs. We believe a small number of demonstration areas is necessary because several of the tax incentives and program inducements we propose have never been tried, are costly, or may have unpredictable results. This proposal allows for true experimentation: only what works and proves cost effective will be expanded at a later date.

All applicants would apply through a single challenge grant process for designation as a CEP or Demonstration CEP. Up to a total of 110 CEPs could be established in the first year, within current budget restraints.

2. 25 to 50 Demonstration CEPs: Secretary Bentsen proposes a total of 25 to 50 Demonstration CEPs which would be selected over the next five years, i.e., 5 to 10 per year. All would have the same mix of tax incentives as in the first option, but the amount of the Enterprise Block Grant available for each Demonstration CEP would be reduced substantially.

The Interagency Working Group opposes this proposal. It relies too much on tax incentives and provides too little in Enterprise Block Grant funding for each CEP. In addition, it is most subject to OMB's legitimate concerns. First, a wave of mandatory tax expenditures will make the Enterprise demonstration much more expensive. Second, it would expend a great deal of resources before learning whether CEPs with substantially reduced tax expenditures can work. Finally, we believe the staggered selection process and the fewer total number of CEP's will not capture the will of Congress nor garner the full support of our constituents as readily as the first option.

C. What tax incentives and other inducements should be provided to CEP's and Demonstration CEPs?

The range and mix of tax incentives, combined with the relative magnitude of the Enterprise Block Grants, provide for an infinite number of options. There are, however, important policy choices between the types of tax incentives to be included, the relative size of the Block Grants compared to the cost of tax incentives, and the total size of the budget.

In the following discussion, we have attempted to provide sufficient detail to inform your decision. In particular, we summarize the full range of tax incentives and other inducements that we recommend so that you will have the context for our evaluations of the decision options presented. If you want to evaluate the tax policy choices in greater depth, we provide a separate appendix prepared by Treasury, which the Working Group has annotated only where there are major policy differences.

1. Tax incentives and other inducements for all CEPs:

We recommend that the following inducements be offered to all CEPs:

a. **Resident Empowerment Savings Incentives:** A 50 percent credit would be available for a contribution by an employer, Community Investment Corporation, or CEP Worker Controlled Enterprise to a Defined Savings Plan ("DSP") on behalf of employees or members who are CEP residents. Participating CEP residents could also contribute to the DSP on a tax deferred basis up to a limit of \$2,000. These savings could be withdrawn (or borrowed) without penalty to pay for education, purchasing a first home, or starting a small business. This will provide the first proving grounds for implementing your pledge to establish Individual Development Accounts to empower low-income Americans to take the first steps toward economic self-sufficiency.

b. **Community Lending:** All CEP's will be eligible to participate in a bold new federal community lending initiative. In the strategic action plan, each CEP will demonstrate how it proposes to maximize capital access by encouraging partnerships between existing financial institutions, community funds, Community Investment Corporations, Worker Controlled Enterprises, and the Community Development Financial Institutions which will be established pursuant to the new federal community lending initiative. In addition, each CEP must demonstrate in its strategic plan how it will encourage these CDFI's and its partners to access federal and private loan sources outside the CEP, including the discounted loans available to members of the Federal Home Loan Bank Board through its Community Investment Program.

c. **Community Policing:** All CEP's will be eligible for additional support for Safe Streets from the portion of the FYs 93-94 baseline Enterprise funding reserved for meeting your pledge of 100,000 additional cops on the beat.

d. **Eligibility for Participation in Innovative Federal Experiments:** Each CEP will also be eligible to compete for a variety of special challenge grants. For example, DoEd proposes to provide funds for several comprehensive Enterprise School Communities to implement the National Education Goal and to allow CEPs to submit a strategic action plan for usage of such funds. DOL, DoEd, and HHS will also offer a variety of demonstration opportunities for local innovation in school-to-work, apprenticeship, welfare-to-work, unemployment-to-work, and drug prevention and rehabilitation-to-work. HUD and Agriculture will also make available similar opportunities for local innovation, including, for example, Section 8 vouchers, Moving to Opportunities, HOME, and Youthbuild. The number of CEP's that

will be able to participate in such demonstrations will vary by federal initiative.

e. **Tax Exempt Private Facility Bonds:** All CEP's will be able to receive the benefit of exempting 50% of private facility bonds from State caps, and these CEP facility bonds will be excepted from the section 265 bank deductibility prohibition. Each primary user (e.g., a business firm) will be limited to \$3 million in any one CEP and a total of \$20 million across all CEP's.

f. **Expansion of the Low Income Housing Tax Credit:** Finally, all CEPs will be viewed as a "difficult to develop" area for purposes of increasing the Low Income Housing Tax Credit to 91 percent of present value from 70 percent of present value. [This is subject to Treasury calculating the cost of offering this to all as opposed to only the Demonstration CEPs.]

This bundle of inducements available to all CEP's is substantial. When combined with the benefits resulting from reinventing the way the federal government does business, we believe that there will be intense competition from local communities to be designated a CEP.

Depending on the extent to which you wish to target available Enterprise Block Grant funds on Demonstration CEPs, a much smaller Block Grant could also be made available to all CEPs, for example, to defray the costs of local and community planning, start-up and local evaluation. We also believe, however, that many foundations and universities will step forward to pay for or to provide these essential activities in many places.

2. **Added tax incentives and inducements for Demonstration CEPs:**

We recommend offering the following additional inducements to the limited number of Demonstration CEP's:

a. **Resident Empowerment through Community Investment Corporations ("CICs") and Worker Controlled Enterprises ("WCEs"):** Resident-owned CICs could be spurred through interest exclusions. Interest on Loans made to CICs, 51% of which are owned CEP residents, for purchase of qualifying CEP tangible assets could be excluded from taxation to the lender. This will empower CICs, for example, to acquire and develop land, to purchase TV and Fiber Optic cable serving their communities, and to participate fully in new information networks. The CIC provides a way for CEP residents to "homestead" assets and to gain control of their economic destiny.

WCEs could also be spurred through interest exclusions. Interest on loans to permit resident workers to start, acquire and expand

Reverse
order

HUD - Bruce Katz

Labor - Tom Glyn

* CEA - Laura Tyson

Maria Echarste

Justice - _____

* USDA - _____

Ed - Madeline Krain

OMB - Belle Sawhill

* VP - Elaine / Charlotte

April
5th
12th

WCEs, owned 51% by resident employees, could also be excluded from taxation to the lender. With full disclosure, worker control and annual reporting of individual share values to each CEP shareholder, the Shareholder Association of each such WCE would empower resident employees with a full ownership stake in their own businesses, while eliminating the abuses common to ESOP's.

Both of these empowerment incentives will be enhanced by the availability of access to capital provided by the new federal community lending initiative. Moreover, loans will only be made when an independent, third party lender determines that the proposed investment by the CIC or WCE is likely to work.

Dissenting View: These tax incentives for empowering CEP residents to become full stakeholders in shaping their own enterprise destinies are new, and, therefore, largely untried. Treasury opposes these tax incentives because their impact is uncertain. The consensus of the Working Group, however, is that such empowerment incentives are central components of the New Direction you have set for the nation. At the very least, experimentation with such potentially empowering change is warranted in the Demonstration CEP's.

b. Capital Incentives: We recommend a cost recovery approach that is designed to aid enterprises which employ a minimum of 35% CEP residents. The proposed cost recovery includes two components:

- increased property expensing under Section 179 for qualifying investments in depreciable property, up to a \$75,000 cap, phasing out for larger investments above \$300,000)
- accelerated depreciation for all investments in tangible property in the CEP.

These cost recovery proposals complement the tax incentives contained in your proposed budget. They will provide substantial incentives that will be particularly valuable to starting or expanding micro-enterprise, small business, and community-based firms.

Cost recovery vs. An Enhanced Investment Tax Credit ("ITC"): One member of the Working Group has urged consideration of an ITC (e.g., 50% spread over ten years) for qualifying investments.

The ITC would provide a far greater federal subsidy for larger physical improvements in the CEP. However, it could produce undesirable tax sheltering effects that do not benefit the CEP. Cost recovery is less expensive, will aid substantially greater

numbers of small and medium sized businesses, and is more efficient than the ITC. On balance, we believe that cost recovery is superior. [Does HUD want to include the ITC in the decision memo?]

c. **Employment and Training Credits("ETCs"):** ETCs provide an effective means of lowering the costs of doing business for employers. We recommend allowing each employer to take advantage of either

- a multi-year ETC for employers located in the Demonstration CEP that is based upon CEP resident employee wages and qualifying expenses for education and training; or
- a one or two-year Targeted ETC ("TETC") for employers, whether or not located within the Demonstration CEP, that is based upon resident CEP employee wages and qualifying expenses for education and training. (The TETC has important empowerment value for CEP residents because it provides them with a bounty to join the economic mainstream wherever jobs can be found.)

As set forth in Tab B, there are several variations that may be considered in crafting these two ETCs.

"Blanket" vs. "Incremental" ETC: The ETC can be applied to all CEP resident employees ("Blanket ETC") or be "incremental," i.e., applicable only to increases in employment of CEP residents (where total employment also increases). The Working Group narrowly favors the Blanket ETC.

The Incremental ETC costs substantially less than the Blanket ETC and is more efficient in rewarding expansion in employment. To prevent substitutions of existing employees for CEP residents, this credit would be based on increases in total employment and on increases in CEP resident employment. Yet, the Incremental ETC would be much more difficult for employers to understand and would involve much more paperwork. It also would disadvantage existing CEP businesses, which will receive credit only for expansion in employment, while business that are new to the CEP would receive credit for all of their resident employees. (Unfortunately, this disadvantage may also cut across racial lines, with existing CEP businesses likely to be predominately minority.)

The costs of the Blanket ETC would be controlled by not extending it to non-CEP resident employees and by phasing it out after the seventh year of the CEP. However, the Blanket ETC also has disadvantages. The non-resident exclusion creates an incentive for CEP employers to substitute CEP residents for non-resident employees -- which may have unpleasant ramifications. The

Incremental ETC avoids this problem by being tied to increases in total employment. But, as noted, the incremental ITC has other problems.

Although Treasury is opposed to the Incremental ETC, we recommend that it be considered if it is necessary to preserve enough budget authority for the empowerment incentives described above and for a reasonable level of Enterprise Block Grants, as described below.

d. **Block Grants.** We recommend that the Demonstration CEP's receive a substantial Enterprise Block Grant, on the order of magnitude of \$100 million to \$200 million per CEP for FY 93-98. We also recommend that the total amount of the tax incentives for each Demonstration CEP be approximately the same dollar amount as the Enterprise Block Grant. Thus, the size of the Enterprise Block Grant depends on the mix of tax incentives chosen and the total budget that you wish to provide for the Enterprise Proposal during the five-year Budget window.

D. What should be the Total Budget?

A good starting point for making a decision is the total budget. As set forth in the tables at Tab C, we present four options:

- \$0 (the OMB no-cost alternative)
- \$3.3 Billion (Incremental ETC)
- \$4 Billion (Blanket ETC of 15% on first \$20,000)
- \$5.1 Billion (Blanket ETC of 20% on first \$20,000, plus a second year of the TETC)

Each option besides the no-cost alternative includes the empowerment incentives described above and divides the total costs between tax incentives and other inducements evenly.

The \$3.3 Billion alternative uses the Incremental ETC. The \$4 Billion option uses a Blanket ETC based on 15% of the first \$20,000 in wages and qualified education and training expenses. The \$5.1 Billion option uses a blanket ETC based on 20% of the first \$20,000 in wages and adds a second year for the TETC.

With the exception of the OMB model, we believe that the choice among these models is basically a budget issue for your decision -- unless you view one or another of the tax incentives discussed as substantially better or worse.

wrong question

IV. CONCLUSION

Our Enterprise Proposal seeks to implement your call for a new direction by delivering a real message of hope throughout the land, especially to persons in the most distressed places in urban and rural America.

V. DECISION

A. Select One:

- Interagency Enterprise Proposal
- "No-cost" OMB Proposal
- Reject all proposals, Discuss Further

B. If Interagency Proposal Selected, Select one from each category:

1. Number of Zones

- 10 Demonstration CEP's and 100 CEP's
- 25-50 CEP's

2. Approximate 50-50 balance in tax incentives and Block Grants

- Accept
- Reject, Discuss Further

3. Total Approximate Budget

- \$3.3 Billion
- \$4 Billion
- \$5.1 Billion
- Discuss Further

++

DRAFT 7 Monday 3/29 1pm

March 29, 1993

MEMORANDUM FOR THE PRESIDENT

**FROM: THE NEC-DPC INTERAGENCY WORKING GROUP ON
COMMUNITY DEVELOPMENT AND EMPOWERMENT**

SUBJECT: AN ECONOMIC EMPOWERMENT STRATEGY

I. ACTION-FORCING EVENT

Almost one year ago, you toured Los Angeles after the riots and predicted that despite all the media attention and Presidential fanfare, a year would pass and nothing would change. You were right. Across the country, poor communities from South Central to the Mississippi Delta are still reeling from a decade of declining opportunity and rising social and economic isolation. We cannot hope to succeed in the world economy or come together as a nation unless we empower these communities to join the economic mainstream. The sooner you come forward with an empowerment strategy, the better. The long-term success of your economic plan and your Presidency may depend on it.

II. BACKGROUND

Shortly after you took office, Bob Rubin and Carol Rasco asked Gene Sperling and Bruce Reed to set up a joint NEC-DPC interagency working group on community development and empowerment. We wanted a joint effort spanning economic and domestic policy that could look at every aspect of the problems of economically distressed urban and rural areas -- from access to capital and child care to the need for school reform and criminal justice. We brought half a dozen agencies together to rethink existing programs and develop a new, comprehensive empowerment strategy.

For the past two months, the policy shops at HUD, Treasury, Agriculture, Commerce, and OMB have worked with the NEC and DPC on the first stage of that new strategy: economic empowerment. We set out not only to prepare specific proposals that could be passed this spring as part of your initial budget, but to develop a framework that could incorporate other new ideas over the course of your administration.

The proposals presented here -- for enterprise zones and community development banks -- are bolder and more innovative than anything any previous administration has put forward. While we recognize that Congressional realities may force us to temper these ambitious proposals, we nonetheless believe the attached proposals can be passed into law and lay the groundwork for dramatic progress in poor communities across the country.

III. PRINCIPLES

In developing these proposals, we relied on the basic principles you outlined in your campaign:

1. Economic Growth: The best urban policy, the best social policy, and the best anti-poverty policy is a comprehensive strategy for economic growth.

2. Individual and Community Empowerment: Too many enterprise proposals focus only on improving a particular place, and do little to empower the people who live there. Other proposals focus exclusively on the individual and ignore the community. We need a new approach that empowers people and improves places at the same time.

3. Bottom-Up Innovation: No matter how much we manage to do in Washington, the ultimate solutions will come from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers, and reward them for initiative, innovation, and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

4. Bold, Persistent Experimentation: In this area, more than any other, the old answers don't work anymore, and we need to launch a new era of bold, persistent experimentation. Reinventing government must be an integral part of our enterprise proposals. We envision a national network of economic empowerment zones that will serve as laboratories of democracy, where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

These problems have been generations in the making, and we're not going to fix them overnight. But we can change the disastrous economic policies of the last 12 years; we can change the face of government in communities where three decades of federal efforts, however well-intentioned, has done so little good; and we can begin to change the something-for-nothing ethic that has permeated our culture from top to bottom in recent years.

IV. ECONOMIC EMPOWERMENT STRATEGY

We believe that the economic empowerment portion of your comprehensive community development strategy should include four main pillars: economic empowerment zones; community development banks; CRA reform; and community partnerships against crime. This is only a portion of what your administration hopes to accomplish in poor communities, through health care reform, welfare reform, family policy, and so on. Our empowerment agenda is meant to maximize the return on those investments, and to help communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all, new and expanding businesses that generate new jobs.

The attached memos present detailed options for the economic empowerment zones and for the community partnership against crime. Proposals on CRA reform and community development banks will be ready next week.

1. ECONOMIC EMPOWERMENT ZONES

During the campaign, you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October 1992, with the leadership of Senator Bentsen, Congress passed H.R. 11, which Bush then vetoed. H.R. 11 would have created 50 "enhanced enterprise zones" which provided not only tax and regulatory relief but \$500 million a year for a broad array of programs within the zones.

Since H.R. 11 passed so recently, we could simply send Congress the same bill. But our entire working group agreed that the traditional forms of enterprise zones were not effective. We wanted to move beyond the old left-right debate that the answer to every problem is more federal spending on the one hand or more tax breaks on the other.

We recommend four major reforms of H.R. 11:

1. Fewer zones with more impact: We'll never know whether enterprise zones work if we scatter our limited resources among 50 zones. We believe the enterprise zones must be more focused, so that money and commitment are not spread too thin.

2. Reinventing government: No amount of outside financial help will enable entrepreneurs or individuals to get ahead if red tape or misdirected programs stand in their way. Enterprise zones should be a vehicle for streamlining the waiver process, coordinating federal programs, and improving services.

3. Individual empowerment: We need to empower individuals as well as communities, by offering access to capital, savings incentives, and other measures to promote

work, entrepreneurship, and asset building.

4. Laboratories of change: A handful of tax incentives, no matter how targeted, will never be enough to turn a troubled community around. Over the long term, we hope the real value of these empowerment zones will be to serve as magnets for innovation by the public and the private sector.

Option 1 -- 10 Economic Empowerment Zones and 100 Enterprise Neighborhoods: We recommend building upon the enhanced enterprise zone approach. Our consensus proposal designates up to 10 Economic Empowerment Zones that will receive all of the tax incentives and block grant inducements, while allocating a less expensive mix of inducements to a larger number, up to 100 Zones or Enterprise Neighborhoods (ENs). We believe a small number of demonstration areas is necessary because several of the tax incentives and program inducements we propose have never been tried, are costly, or may have unpredictable results. This proposal allows for true experimentation: only what works and proves cost effective will be expanded at a later date. This proposal also meets your campaign pledge to create 75 to 125 zones, while targeting the funds to insure success.

All applicants would apply through a single challenge grant process for designation as a Zone or Demonstration Zone. Up to a total of 110 Zones could be established in the first year, within current budget restraints.

Option 2 -- 25 to 50 Demonstration Zones: Secretary Bentsen proposes a total of 25 to 50 Demonstration Zones which would be selected over the next five years, i.e., 5 to 10 per year. All would have the same mix of tax incentives as in the first option, but the amount of the Enterprise Block Grant available for each Demonstration Zone would be reduced substantially.

The Interagency Working Group opposes this proposal. First, we believe it relies too much on tax incentives and provides too little in Enterprise Block Grant funding for each Zone. Second, a wave of mandatory tax expenditures will make the Enterprise demonstration much more expensive. Third, it would expend a great deal of resources before learning whether Zones with substantially reduced tax expenditures can work. Finally, we believe the staggered selection process and the fewer total number of Zones will not capture the will of Congress nor garner the full support of our constituents as readily as the first option.

Specific Tax Incentives and Inducements

DRAFT 7 Sunday 3/28 7pm

March 29, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: THE COMMUNITY EMPOWERMENT WORKING GROUP

SUBJECT: OVERVIEW OF ENTERPRISE ZONE PROPOSAL

I. ACTION-FORCING EVENT

Almost one year ago, you toured Los Angeles after the riots and predicted that despite all the media attention and Presidential fanfare, a year would pass and nothing would change. You were right. Across the country, poor communities from South Central to the Mississippi Delta are still reeling from a decade of declining opportunity and rising social and economic isolation. We cannot hope to succeed in the world economy or come together as a nation unless we empower these communities to join the economic mainstream. The sooner you come forward with an empowerment strategy, the better. The long-term success of your economic plan and your Presidency may depend on it.

II. BACKGROUND

Shortly after you took office, Bob Rubin and Carol Rasco asked Gene Sperling and Bruce Reed to set up a joint NEC-DPC interagency working group on community development and empowerment. We wanted a joint effort spanning economic and domestic policy that could look at every aspect of the problems of economically distressed urban and rural areas — from access to capital and child care to the need for school reform and criminal justice. We brought half a dozen agencies together to rethink existing programs and develop a new, comprehensive empowerment strategy.

For the past two months, the policy shops at HUD, Treasury, Agriculture, Commerce, and OMB have worked with the NEC and DPC on the first stage of that new strategy: economic empowerment. We set out not only to prepare specific proposals that could be passed this spring as part of your initial budget, but to develop a framework that could incorporate other new ideas over the course of your administration.

The proposals presented here — for enterprise zones and community development

banks -- are bolder and more innovative than anything any previous administration has put forward. While we recognize that Congressional realities may force us to temper these ambitious proposals, we nonetheless believe the attached proposals can be passed into law and lay the groundwork for dramatic progress in poor communities across the country.

III. PRINCIPLES

In developing these proposals, we relied on the basic principles you outlined in your campaign:

1. Economic Growth: The best urban policy, the best social policy, and the best anti-poverty policy is a comprehensive strategy for economic growth.

2. Bottom-Up Innovation: No matter how much we manage to do in Washington, the ultimate solutions will come from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers, and reward them for initiative, innovation, and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

3. Bold, Persistent Experimentation: In this area, more than any other, the old answers don't work anymore, and we need to launch a new era of bold, persistent experimentation. Reinventing government must be an integral part of our enterprise proposals. We envision a national network of economic empowerment zones that will serve as laboratories of democracy, where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

These problems have been generations in the making, and we're not going to fix them overnight. But we can change the disastrous economic policies of the last 12 years; we can change the face of government in communities where three decades of federal efforts, however well-intentioned, has done so little good; and we can begin to change the something-for-nothing ethic that has permeated our culture from top to bottom in recent years.

[POSSIBLE ADDITION: Empower Individuals and Communities: Too many enterprise proposals focus only on improving a particular place, and do little to empower the people who live there. Other proposals ignore the community altogether. BUT WHICH SIDE ARE WE ON?]

IV. PROPOSALS

We believe that your community empowerment strategy should incorporate three main proposals: economic empowerment zones; community development banks; and community partnerships against crime. This is only a portion of what your administration hopes to accomplish in poor communities, through health care reform, welfare reform, Head Start, and so on. Our empowerment agenda is meant to maximize the return on those investments, and to help communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all, new and expanding businesses that generate new jobs.

The attached memos present detailed options for the economic empowerment zones and for the community partnership against crime. A community development bank proposal will be ready next week. Here is an overview of the major programs as we see them:

*** Economic Empowerment Zones:** We call for 10 Economic Empowerment Zones that will receive substantial tax incentives for job creation, and 100 Enterprise Neighborhoods that would qualify for a smaller range of incentives and inducements. Communities will compete for Enterprise Challenge Grants that give them broad leeway to design and carry out their own plans, but also hold them accountable for measurable results. We will give businesses incentives to create jobs and individuals incentives to take them. These 110 communities will be natural candidates for community development banks and community policing, and could serve as ideal laboratories for a wide variety of innovative federal experiments already in the works, including national service, welfare reform, and youth apprenticeship.

*** Community Development Banks:** (explain where we are)

*** Community Partnership Against Crime:** (explain HUD proposal)

Together, these proposals move beyond the old left-right debate that the answer to every problem is more federal spending on the one hand or more tax breaks on the other. They offer real opportunity to real people: a savings account, a cop on their block, an employment voucher that will reward any business for giving them a job.

IV. ENTERPRISE ZONE OPTIONS

History

Since the early 1980s, 36 states and the District of Columbia have enacted enterprise zone legislation, most offering only tax and regulatory incentives. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October of 1992, Congress passed H.R. 11 (the urban aid tax bill that Bush vetoed last November), which included a proposal for 50 "enhanced enterprise zones" which provided not only tax and regulatory relief but \$500 million a year in increased social spending within the zones.

During the campaign you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. The Plan for a New Direction includes \$4.1 billion for new investment in enterprise zones, while an additional \$1 billion is in the baseline for FY93 and FY94.

We recommend four major innovations over H.R. 11:

1. Challenge Grants to Reinvent Government: No amount of outside financial help will enable entrepreneurs or individuals to get ahead if red tape or misdirected programs stand in their way. Under our proposal, no applicant will receive a single dollar of federal enterprise support until it demonstrates that it will reinvent the way local, state and federal government do business. We will provide communities with a single point of contact in Washington to secure necessary waivers and coordination across federal departments, provided that the communities present comprehensive strategic action plans to provide services in a coordinated, response, and entrepreneurial way.

2. Fewer Zones, More Impact: We believe that a small number of meaningful zones will be much more likely to succeed than a large number of zones that are watered down for political expedience. Our proposal calls for 100 Enterprise Neighborhoods that would give communities an incentive to reinvent government in return for community policing, individual empowerment programs, and special consideration for community development banks and other pending federal initiatives. But we recommend targeting most of the tax incentives into 10 Economic Empowerment Zones. Only a targeted proposal will give the enterprise zone experiment a fair test and allow us to measure results.

3. Laboratories for Change: A handful of tax incentives, no matter how targeted, will never be enough to turn a troubled community around. Over the long term, we hope the real value of these empowerment zones will be to serve as magnets for innovation by the public and the private sector. Various federal agencies might select zones for school reform, apprenticeship, welfare-to-work, unemployment-to-work, drug prevention, and so on. Companies and private foundations might

DRAFT 6 3/26, FRIDAY 7pm

March 29, 1993

MEMORANDUM FOR THE PRESIDENT OF THE UNITED STATES

FROM: THE COMMUNITY EMPOWERMENT WORKING GROUP

SUBJECT: OVERVIEW OF ENTERPRISE ZONE PROPOSAL

I. ACTION-FORCING EVENT

Almost one year ago, you toured Los Angeles after the riots and predicted that despite all the media attention and Presidential fanfare, a year would pass and nothing in South Central would change. You were right. With the anniversary of the L.A. riots just a month away and a verdict in the police officers' trial likely in 2-3 weeks, we urge you to announce your long-term community empowerment strategy in the next 10 days -- before these events take place.

II. BACKGROUND

Shortly after you took office, Bob Rubin and Carol Rasco asked Gene Sperling and Bruce Reed to set up an interagency working group on community empowerment to flesh out your enterprise zone and community development bank proposals. For the past two months, the policy shops at a half dozen departments have been working together on the project. The attached proposals incorporate ideas from HUD, Treasury, Agriculture, Commerce, OMB, NEC, and DPC as well as outreach efforts to community groups and business.

In developing these proposals, we relied on the basic principles you outlined in your campaign:

1. The best urban policy, the best social policy, and the best anti-poverty policy is economic growth. We don't need another urban aid package; these proposals ought to be part of a larger national economic vision to restore urban and rural communities by empowering people to join the economic mainstream.

2. In this area, more than any other, the old answers don't work anymore, and we need to launch a new era of bold, persistent experimentation. We envision a national network of

economic empowerment zones that will serve as laboratories of democracy, where communities will get more freedom to try new approaches, but will also be called upon to demonstrate results.

3. In the end, the solution will come not from Washington, but from the bottom up, from communities and individuals willing to help themselves. These proposals challenge communities to design their own answers, and reward them for initiative, innovation, and results. At the same time, the policies will not only give people more opportunity, but inspire them to take more responsibility for their own lives.

We're not going to fix these problems overnight, and it is up to the communities themselves whether we'll fix them at all. But we can change the disastrous economic policies of the last 12 years; we can change the face of government in communities where three decades of federal efforts, however well-intentioned, has done so little good; and we can begin to change the something-for-nothing ethic that has permeated our culture from top to bottom in recent years.

III. PROPOSALS

We believe that your community empowerment strategy should incorporate three main proposals: economic empowerment zones; community development banks; and community partnerships against crime. This is only a portion of what your administration hopes to accomplish in poor communities, through health care reform, welfare reform, Head Start, and so on. Our empowerment agenda is meant to maximize the return on those investments, and to help communities restore the basic conditions they need to succeed: safe streets, access to capital, and above all, new and expanding businesses that generate new jobs.

The attached memos present detailed options for the economic empowerment zones and for the community partnership against crime. A community development bank proposal will be ready next week. Here is an overview of the major programs as we see them:

* **Economic Empowerment Zones:** We call for 10 Economic Empowerment Zones that will receive substantial tax incentives for job creation, and 100 Enterprise Neighborhoods that would qualify for a smaller range of incentives and inducements. Communities will compete for Enterprise Challenge Grants that give them broad leeway to design and carry out their own plans, but also hold them accountable for measurable results. We will give businesses incentives to create jobs and individuals incentives to take them. These 110 communities will be natural candidates for community development banks and community policing, and could serve as ideal laboratories for a wide variety of innovative federal experiments already in the works, including national service, welfare reform, and youth apprenticeship.

- * **Community Development Banks:** (explain where we are)
- * **Community Partnership Against Crime:** (explain HUD proposal)

Together, these proposals move beyond the old left-right debate that the answer to every problem is more federal spending on the one hand or more tax breaks on the other. They offer real opportunity to real people: a savings account, a cop on their block, an employment voucher that will reward any business for giving them a job.

IV. ENTERPRISE ZONE OPTIONS

History

Since the early 1980s, 36 states and the District of Columbia have enacted enterprise zone legislation, most offering only tax and regulatory incentives. Congress enacted federal enterprise zones in 1987 but the Administration refused to designate any zones. In October of 1992, Congress passed H.R. 11 (the urban aid tax bill that Bush vetoed last November), which included a proposal for 50 "enhanced enterprise zones" which provided not only tax and regulatory relief but \$500 million a year in increased social spending within the zones.

During the campaign you pledged to create 75 to 125 comprehensive urban and rural enterprise zones. The Plan for a New Direction includes \$4.1 billion for new investment in enterprise zones, while an additional \$1 billion is in the baseline for FY93 and FY94.

We recommend four major innovations over H.R. 11:

1. Challenge Grants to Reinvent Government: No amount of outside financial help will enable entrepreneurs or individuals to get ahead if red tape or misdirected programs stand in their way. Under our proposal, no applicant will receive a single dollar of federal enterprise support until it demonstrates that it will reinvent the way local, state and federal government do business. We will provide communities with a single point of contact in Washington to secure necessary waivers and coordination across federal departments, provided that the communities present comprehensive strategic action plans to provide services in a coordinated, response, and entrepreneurial way.

2. Fewer Zones, More Impact: We believe that a small number of meaningful zones will be much more likely to succeed than a large number of zones that are watered down for political expedience. Our proposal calls for 100 Enterprise Neighborhoods that would give communities an incentive to reinvent government in return for community policing, individual empowerment programs, and special consideration for community development banks and other pending federal initiatives. But we recommend targeting most of the tax incentives into 10 Economic Empowerment Zones. Only a targeted proposal will give the enterprise zone experiment a fair test and allow us to measure results.

3. Laboratories for Change: A handful of tax incentives, no matter how targeted, will never be enough to turn a troubled community around. Over the long term, we hope the real value of these empowerment zones will be to serve as magnets for innovation by the public and the private sector. Various federal agencies might select zones for school reform, apprenticeship, welfare-to-work, unemployment-to-work, drug prevention, and so on. Companies and private foundations might ...

THE WHITE HOUSE

WASHINGTON

March 17, 1993

MEMORANDUM FOR GENE SPERLING
BRUCE REED
PAUL WEINSTEIN

FROM: PAUL DIMOND
SHERYLL CASHIN

SUBJECT: Decision Memo Outline for EP Proposal

Here's an initial stab at an outline (in which we've exercised a number of judgments about what issues should be included for decision and how those issues should be stated). We've also described, at least by summary title, a consensus about how the the alternative models may be merged into one proposal.

All other errors and omissions are due to typos or the rush. This draft is intended to get the discussion started. So, fire away.

Outline for EP Decision Memo

I. Overview

A. Points of Consensus

1. Our proposal should be broader than the Kemp conception of Enterprise Zones. In addition to attracting businesses from without, we want to empower people from within. In particular, we want to improve the economic opportunities available to zone residents by providing incentives for employment, starting and expanding business, and saving.

2. Our proposal should be more comprehensive and bolder in terms of the federal inducements we provide.

In addition to tax incentives which will lower capital costs for business expansion, we want to establish incentives that are based on employing and training zone residents.

We want to include federal programs that are essential to expansion of enterprise through building the local community (e.g., more cops on the street, worker training, welfare-to-work and enhanced CDBG funding).

We want to "reinvent" the way that government does business, both at the federal and local level. We seek to join the relevant federal programs and tax incentives in one challenge grant that induces new public-private, state-local partnerships to respond to enterprise concerns and community needs in bold new ways.

B. Four Primary Models for Enterprise Partnerships

1. Economic Development / Job Creation Model: This model assumes that enterprise zones are not a cure for every ill the Clinton Administration is committed to tackling. At the core of the Clinton presidential campaign was a commitment to expanding economic opportunity for all Americans. Enterprise Zones meet this promise for acutely distressed areas, particularly the inner city and distressed rural areas. EZs are the business expansion component of the Clinton Administration's urban agenda. Other objectives will be accomplished through other vehicles (e.g. Head Start, WIC, welfare reform, systemic school reform, EITC). This EZ model will be comprehensive in its approach to achieving the business expansion objective. In addition to tax incentives, we will provide a broad menu of government inducements, such as funding for additional community policing, that can be linked to the objective of business

expansion.

2. The Systemic Model: Supporters of this approach argue that we are setting ourselves up for failure if our only measure of success is the extent of new businesses in the zones. This model assumes that the goal of business expansion is too narrow because tax-incentive enterprise zones have not been effective tools for business expansion. Failure is particularly likely because the success measure-- i.e., number of businesses attracted, started or expanded-- will be very easy to quantify.

More importantly, this model is driven by the belief that, because of the plethora of ills plaguing distressed urban and rural areas, long-term recovery in these areas cannot be predicated upon economic activity alone. In other words, to attract and sustain economic activity, blight and the multi-faceted forms of distress must be eradicated. This model calls for a systemic approach which addresses the multi-faceted needs of the individual and the community in these areas. In addition to tax incentives targeted primarily toward businesses, this model requires reinvention of government to make existing program funds going into distressed areas more accessible and responsive to residents and communities.

distinguish from #2, not #1

3. The Empowerment Model: The focus of this model is not businesses or the community as a whole, but the individuals who live in severely distressed areas. The model's objective is empowering zone residents to join the economic mainstream. (A shorthand for the difference between this model and the other models is that the empowerment model emphasizes helping local residents build business, gain employment, accumulate assets and build their own communities, while the other models emphasize revitalizing places.) This shift in emphasis will shape the content of the federal incentives provided. Incentives will be designed to place maximum control in the hands of zone residents, rather than focusing exclusively on influencing the economic decisions of businesses.

4. The Minimum Cost / Zero Option: The premise of this model is that tax-incentive Enterprise Zones are an ill-advised, ineffective tool for economic or social revitalization in distressed areas. Supporters of this model believe the cost per-job-created in each EZ is too high for EZ's to be replicated throughout the country. In addition, they contend that Congress is not likely to be restrained to a relatively small number of zones; therefore, the resources available for EZs will be diluted, or the pressure for unwarranted spending beyond the budget caps will increase.

This model is intended to meet the President's campaign promise of creating enterprise zones by giving localities the funding and support to try reinventing the delivery of existing services. This model saves funds and buys us time to develop a more comprehensive urban policy agenda for severely distressed areas. It contains virtually no tax incentives for attracting businesses to targeted areas.

II. The Pros and Cons of Each Model

[Sheryll will begin work on this section. Defenders of each model are invited to make their best case and state perceived cons for other models. Please send your drafts or comments to Sheryll.]

III. The Model We Recommend: A Bold, But Cost Effective Enterprise Empowerment Partnership: A Small Number of Enterprise Partnerships, a Larger Number of Economic Empowerment Initiatives

[Bruce, Gene and the Pauls will work on this section. All suggestions are welcome.]

IV. Other Decisions That Must Be Made

A. Number of Zones.

1. 10 Pilot Enterprise Partnerships and 100 EPs. As described above, we envision (1) a small number of enhanced zones that will receive all of the tax incentives (and program inducements) and (2) a larger number of zones with only the resident empowerment tax incentives (and program inducements). This will allow us to experiment with unpredictable (and costly) tax incentives, while assuring that a far larger number participate in reinventing the way government, the private sector, and residents do business in distressed urban and rural areas.

We recommend 10 pilot EPs ("enterprise partnerships") with enhanced tax incentives and 100 other EPs. All can be established in the first round of the challenge grant process and be in operation within a year, within the current budget restraints.

2. 50 Enhanced Tax Incentive Zones. As an alternative, the current budget constraints would permit a total of 50 of the enhanced tax incentive zones, with 10 selected per year selected over the next five years. Although this would cost the same amount over five years as the first option, it would cost substantially more over the next five years, once

all of the enhanced tax incentive zones are in place. Given the uncertainty over the impact of the tax incentives, we recommend experimenting with a fewer number in the first term in order to learn from the experience before considering any expansion to a larger number. Given the larger number of EPs immediately available under the first option, the second option may also be less readily embraced by Congress.

B. Tax Incentives.

As set forth above, all zones would receive substantial tax incentives for resident empowerment, including exclusion of interest for investments in worker controlled businesses and community investment corporations. This will permit residents to participate in a new frontier form of homesteading of capital assets, new technology, land, and business. In addition, all zones would have incentives for contributions to resident savings plans, as well as bounties for all firms hiring residents moving from welfare to work. Finally, all zones would receive the benefit of exempting 50% of facility bonds from State caps, and the bonds are excepted from section 265 bank deductibility prohibition.

The major options relate to the mix of tax incentives for enhanced zones with respect to capital and employment and training:

1. Capital. There are two basic options:

- (a) cost recovery (including property expensing for qualifying investments in depreciable property up to \$75,000 cap), plus accelerated depreciation for all investments in tangible property or
- (b) an investment tax credit (e.g., 50% spread over ten years) for qualifying investments ("ITC").

Cost recovery is less expensive, gives a stronger incentive to small business investment, and is more efficient than the ITC. The ITC does, however, provide a far greater federal inducement for development in the zone, at a far greater cost to U.S. taxpayers.

In addition, the zone will be viewed as a "difficult to develop" area for purposes of increasing the Low Income Housing Tax Credit by 30%.

2. Employment and Training Credits ("ETC"). The mix of options on ETC is more complex:

- (a) Zone employer ETC credit of 25% of the first \$20,000 in wages and training of all zone employees for first six years, declining 5% per year over next five years ("Blanket ETC")

- (b) Zone employer ETC credit of 25% of increment in total wages and training expenses over baseline (which may be adjusted for inflation) attributable to increases resulting from zone resident employment ("Incremental ETC")
- (c) ETC refundable but with a cap of \$2500 per employer
- (d) A targeted ETC for all employers who hire zone residents for one year, limited to 25% of the first \$20,000 in wages and training of the zone resident.

The targeted ETC provides important symbolic empowerment for zone residents to join the economic mainstream wherever jobs can be found. Although the administration and impact of other Targeted Job Tax Credit Programs has been at best problematic to date, we recommend that the targeted ETC be included in any package and that DOL and Treasury work to make the administration more efficient and effective.

We also recommend that the ETC be made refundable.

The Incremental ETC costs substantially less than the Blanket ETC and is much more closely tied to expansion in zone employment than the Blanket ETC. The Incremental ETC is substantially more difficult for employers to understand and involves substantially more paperwork than the Blanket ETC. The Incremental ETC also may be viewed as unfair to existing zone businesses who will receive credit only for expansion in employment, while newly formed business can receive credit for all of their zone employees. On balance, the Blanket ETC appears the better alternative.

3. A Menu. Given the uncertainty of the tax incentives, it may be appropriate to provide the applicants with a menu of tax incentives from the alternatives described above. The menu could be structured so that each applicant would have an effective cap on its total tax incentives for capital and employment training. Such a menu would facilitate additional investigation of the results achieved by diverse tax incentive in the 10 enterprise laboratories.

C. Program Inducements.

There are two basic issues: number of programs to be included in all zones and whether there should be additional program inducements for the 10 pilot zones.

1. Programs. Programs could be limited to those that directly relate to business development or could be expanded to include more broadly all programs that serve to permit the community development necessary to enable a distressed area to attract and keep expanding enterprise on a sustained basis. For example, training, welfare to work, more community policing and school-to-work apprenticeship

programs are arguably more directly related to business development than are head start, WIC, implementing the national education goals in K-12 schools, or CDBG used for rebuilding the community. Yet, there is a strong case that there can be no effective welfare-to-work unless single parents have more flexible head start and K-12 community schools which facilitate a parent working full-time or part-time. Similarly, CDBG grants can be focussed by the local community on such critical business development programs as providing the match for new community lending or community investment initiatives, while other CDBG grants may finance the physical infrastructure essential for any successful business expansion.

Rather than make a limiting decision on which programs should be included, we recommend that we include an agreed list of programs that are arguably related to business development. Through the challenge grant process, we will then challenge applicants (a) to match the larger block grant with state, local and private sources and (b) to develop a strategic plan for using the combined funds to expand enterprise in the zones and to empower residents to join the economic mainstream on a sustained basis. Such an approach will serve to implement the proposal's three objectives: empowering residents, expanding enterprise in the zones, and reinventing government.

The cost of all such programs would be born by existing budgets and would not increase the costs of the program. Such program costs could be obtained by a separate set aside from each program included, or through the FY 95 budgeting process in a separate allocation (with a concomitant reduction in the budgets for each included program). Although this may raise political concerns, potential applicants and Congress may be receptive to such an allocation of resources that could well go to these communities in any event.

All zones will also receive additional support for major new community lending initiatives under our CDB proposals and, to the extent a portion of appropriated Community Investment Funds are targeted for cops, for community policing. The remainder of the appropriated funds for FY 93 and 94 would be included to increase the Challenge Grant available to the 10 enterprise laboratories.

Finally, as other agencies develop pilot programs that they wish to implement, all of the 110 EPs provide an excellent platform both for coordination and experimentation. For example, DoEd wishes to run a pilot program of enterprise schools in 10 to 15 communities to challenge local restructuring to implement the National Education Goals.

DoEd has \$30 million to fund this pilot and would like to make it a part of the Enterprise Challenge Grant process. Similarly, DOL and HHS have a number of pilot initiatives (e.g., Youth Fair Chance, Youth Apprenticeship in cooperation with DoED, "one stop shopping" and "opportunity cards") that they wish to include. The inter-agency process of considering such pilots gives us confidence that their inclusion in the Enterprise proposal will enhance the entire process of reinventing government and further enhance the inducement to applicants.

D. Names and Themes

There are three main themes to our proposal: empowerment, enterprise, and reinventing government. Each provides a different, but mutually reinforcing basis for our recommendation. Which theme should provide the lead and how the themes should then be mixed is an issue that will need to be addressed once the selection among the basic options has been made.

Similarly, once the lead and the mix of themes has been established, the names for the 10 pilot laboratories, the 100 other, and the total proposal will have to be finalized. We recommend consideration of new names other than "enterprise zones" to distinguish our proposal. Although this may require some reeducation of the Congress and the public to avoid confusion, we believe the proposal provides a major opportunity to put the Clinton stamp on what promises to be a bold, new initiative.

V. Conclusion

→ Get Sunday NYT welfare story (3/14)

AGENDA

ENTERPRISE PARTNERSHIPS
OEOB 4/16; March 15, 5:00 P.M.

- I. Goal, Purpose, Experimental Framework
 - B. Federal Inducement w/ state-local-private-community match
 - A. Enterprise, jobs, business
 - C. Whole Community? D. Experimental E. Other?
- II. Objective Criteria
- III. Limited Number (up to 10) Enterprise Partnerships; Larger Number (up to 120) Economic Empowerment Zones
 - issue = Minimum % of persons/communities in poverty (target flexibility) w/ sec'y discretion - exceptions for individual, vacant? '80?
 - [Politics?] | Plan B Fed SP -- 10 per year
- IV. Challenge Grant Process, Local Planning, Criteria, Role of Secretaries & Interagency Working Group
 - Issue = Sec'y Designation
- V. Federal Inducements
 - A. Tax (experiment?)
 - 1. Labor and Employment
 - WTC - amount for 10 years to firm; refundable?
 - WTC - declining to firm ~~...~~
 - WTC - incremental for expansion (e.g., Shapiro/Hammer)
 - TTC - by employee
 - other Fed \$18 window?
 - 2. Capital
 - TTC -
 - IRC?
 - 3. Resident Empowerment (Tax plus Discount, Credit, Program, other)
 - C.T.C.; Worker Share; Worker IRA/Keogh
 - B. \$/Block Grant
 - issue = block grant? HUD/IA? Interagency?
 - C. Coordination/Deregulation = what mean? who is point of contact? De adums or Warner?
 - D. Other Federal Pilots = what ready to roll? Sec'y of program designate? Include in legislation? Commerce?
 - Youth Finance (DOL); Education Enterprise (DOE); HHS; HUD; DOS
 - E. Priority on other Federal Programs = do we need? or is it part of local choice?
- VI. Periodic Performance Review, Sanctions, Mid-course Correction; Role of Secretaries and Interagency Working Group
 - Issue = what measure? what sanctions. mid-course correction?
- VII. Independent Evaluation
 - how see us working group interact?
 - Challenge Grant or Sat at District?
- VIII. Sunset for Legislation and Designated Partnerships/Zones
- VIII. Timing of Legislation
- IX. Rhetorical Framework
- X. Next Steps

THE WHITE HOUSE

MAR 10 1993

WASHINGTON

March 10, 1993

MEMORANDUM FOR: ENTERPRISE PARTNERSHIP WORKING GROUP

FROM: PAUL DIMOND
SHERYLL CASHIN
PAUL WEINSTEIN ✓

SUBJECT: DRAFT ENTERPRISE PARTNERSHIP PROPOSAL

Attached is a discussion draft of the Enterprise Partnership Proposal. We tried to flesh out the group's consensus, inserted a few suggestions, and highlighted open issues. If we've missed any ideas (or spurred any new ones) let us know. Everything we have written is tentative, open to discussion, and subject to change by the group. Tomorrow we will transmit a table outlining the characteristics of the two tiers for enterprise partnerships.

Also attached is a new master list of working group participants with phone and fax numbers. An asterisk is placed by the names of those persons who have been working on the Enterprise proposal.

Please fax your comments, thoughts for restructuring, and suggested changes and rhetorical alternatives to us and to all other members of the Enterprise Partnership working group by the end of the day on Friday. We will then send a new draft to you by Monday morning.

Please plan to attend a meeting on Monday, March 15 from 1 to 3 p.m. in Room 230. We hope to come to an agreement on the major issues in this meeting. If we do, then each agency will be responsible for getting its Secretary to sign off. We hope to be able to present a decision memorandum to the President by the end of next week.

EMPOWERMENT ZONES

cc: Gene Sperling
Bruce Reed

THE WHITE HOUSE

WASHINGTON

March 8, 1993

DRAFT FOR DISCUSSION

MEMORANDUM FOR ENTERPRISE PARTNERSHIP WORKING GROUP

FROM: PAUL DIMOND
SHERYLL CASHIN
PAUL WEINSTEIN

SUBJECT: ENTERPRISE PARTNERSHIPS

I. ACTION FORCING EVENTS:

- Campaign pledge--reinvent federal process to empower local communities to join with private sector to revitalize distressed urban and rural areas.

- Holdover Congressional Bills--to enact enterprise zones ("EZ").

- Supplemental Appropriation--to determine use of FY 93 baseline budget amount of \$500M for Community Investment (which our Budget and previous congressional appropriation reserved for EZ).

To date the key congressional committed have expressed a willingness to hold off on pressing any EZ bill so long as our proposal is ready for submission on or about April 8. In addition, we should be prepared by March 20 to advise Congress on how we wish to allocate the FY 93 Community Investment appropriation (including, e.g., a portion for the Safe Streets Initiative).

II. BACKGROUND

In the continuing migration of people, firms, and capital throughout this century, the urban and rural landscape has been pocked by areas of substantial distress, disinvestment, even ghettoization in some places. Discrimination, isolation, breakdown in family and community, crime, even hopelessness pervade too many of these places. The human despair and dependence, physical deterioration and capital flight in many distressed areas has been decades in the making.

To remain competitive in the global marketplace, we as country must what is also right: offer a lever of wider opportunity so that distressed areas and persons now isolated in a cycle of poverty can join the economic mainstream. In return, we must demand responsibility and expect results.

Previous attempts to revitalize such distressed areas by directly reversing the tides of migration and the forces of the market have not proven effective. "Trickle down" advocates argued for tax incentives to lure firms into relocating in distressed areas, while "tax and spend" defenders countered that more government spending on social services and physical improvements within these distressed areas was necessary. Some from both camps argued that we need only combine the two approaches to make a difference.

The President pledged a new direction--to invest in people, to promote community and family, to empower persons and firms to work, to enable distressed areas to become integral parts of a dynamic local, metropolitan, regional and national economy.

To meet this pledge, we recommend a bold initiative for Enterprise Partnerships ("EPs") which:

- challenges states and localities, universities and foundations to form new partnerships with the private sector throughout each local region and with the affected local communities to build enterprise in distressed areas
- challenges these enterprise partnerships to develop bold new ways to work with the markets, the changing economy, and the dynamic forces of mobility and opportunity throughout each local region
- coordinates federal assistance, the economic stimulus package, and the proposed investments for the future to help each such enterprise partnership become an engine of growth and change
- makes all federal assistance responsive to the needs of each such enterprise partnership
- learns what works from each such enterprise partnership
- demands that each such enterprise partnership take responsibility for the results of its work.

The success of each enterprise partnership will be measured by the extent it (a) empowers local residents to become full participants in the economy and (b) enables distressed areas to become integral parts of the local, metropolitan, regional and national economy.

Federal support for Enterprise Partnerships is a hand-up, not a hand-out. This is an investment, not a pay-off. This is not business as usual for any of the parties to the Enterprise Partnerships. What works will be offered as a model for others. What doesn't work will be disclosed, and federal assistance will

be redirected.

Our ultimate success in the decades ahead will be measured by the extent to which such a federal hand-up targeted to particular places is no longer needed.

III. RECOMMENDATION:

A. Enterprise Partnerships. To induce States and localities to form new Enterprise Partnerships, the inter-agency EP working group has considered a wide variety of possible options concerning the legislative criteria, the challenge grant and selection process, the type and amount of federal inducements, the number and geographic target of the EPs, and the process of coordinating federal assistance. We recommend:

- up to 10 pilot enterprise partnerships that will receive enhanced incentives, spending and coordination, and access to capital and credit to provide a meaningful laboratory for experimentation and learning on economic growth in distressed areas

- of these pilot enterprise partnerships, up to 6 will be urban, at least one for a city with less than 500,000 persons, selected by the HUD Secretary in consultation with the inter-agency principals; up to 4 rural, at least 1 including a Native American Reservation, picked by the Agriculture Secretary, in consultation with the Interior Secretary and the inter-agency principals

- up to 150 additional enterprise partnerships that will receive full coordination, more limited incentives and spending, access to credit and capital, plus priority for assistance under selected federal programs

- designation for up to 10 years, unless revoked sooner by the Secretary

- objective criteria for geographic area targeted for service by EP--

Minimum Population	
Urban	15,000
Rural	5,000

Maximum Population	100,000
(which will constrict most urban zones to less than 8 square miles)	

Maximum Area in Square Miles

Urban	20
Rural	1000
Maximum number of non-contiguous areas	
Urban	3
Rural, if within state	3
Rural, if multi-state	0
Maximum number of States	
Urban	2
Rural	3
Minimum % of Households in Poverty	
In 40% of tracts	35%
In 80% of tracts	22%
In 100% of tracts	15%

[Issue: Secretary discretion to waive?]

• a challenge grant process to re-invent government at all levels (a) by offering a flexible, interagency block grant, single point of federal contact, fair access to credit, capital, and community lending, and a mix of federal inducements and (b) by requiring a local action plan for economic growth from a comprehensive enterprise partnership, including state and local government, the affected communities, and the private sector in the region

• evaluation by Secretary of local action plans based upon the following criteria--

extent of expansion and creation of private enterprise and jobs in the targeted area;

extent of tangible private sector commitment and contribution from the region to increasing enterprise;

the effectiveness, efficiency, quality and coordination of delivery of all services (including public safety, education and training, small business assistance) to promote enterprise;

the extent to which affected communities and residents (including those who are working poor, poor and unemployed) of the targeted area (a) participate in plan, (b) take responsibility for implementation, (c) are full stakeholders in the resulting enterprise, and (d) participate in a course of action to achieve self-sufficiency;

effectiveness of plan for human development;

effectiveness of plan for physical development;

certification of insurance availability for the targeted area;

extent of lending and use of community development financial institutions to make commercial, business, and housing loans to promote enterprise in the area;

rehabilitation of publicly owned property and infrastructure to promote enterprise;

complementary state and local tax incentives, regional coordination and cooperation or other inducements to promote enterprise;

use of available federal, state and local bonding authority and tax credits to promote enterprise;

program to implement the National Education Goals;

the strength and quality of the state and local, university, foundation, and private sector contributions and commitments;

the effectiveness and enforceability of the commitments in the local action plan;

the relative level of distress in the targeted area;

performance measures, evaluation and plan for mid-course corrections, reporting.

- periodic performance review by the Secretary, with designation subject to revocation unless local action plan revised to satisfaction of Secretary

- direct spending inducements

Of \$500M Community Investment appropriation for FY 93 and FY 94, 80% allocated to the urban pilot EP's and 20% to the rural pilot EP's through block grants

Additionally, set aside an appropriate percentage of the funds (or appropriate number of designations for other agency pilots) in the President's economic plan for the 10 pilot EPs:

NO

- CDBG
- HOME, HOPE, Section 223(e), 234, 237, etc.
- Section 8 vouchers and Moving to Opportunities
- Youthbuild
- Head Start and Head Start-related feeding
- Parent Education and Family Support
- National Service
- Job Corps expansion
- Repair of Job Corps centers
- One-stop shop career centers
- Youth Apprenticeship
- Safe and Drug-Free Schools
- National Education Goals, Education Enterprise Pilots
- Welfare to Work Reform Pilots
- Head-start Pilots
- other?

OK | Finally, coordination and priority to all the EPs when they apply for federal funds under existing programs, including:

- Justice/Crime Initiative -- "Cops on the Beat"
- Job Training Partnership Act
- Youth Fair Chance Grants
- Section 8 vouchers, Moving To Opportunity
- PH Drug Elimination, Safety, Sport, Study
- Property Improvement Loan Insurance
- Home Mortgage Revenue Bonds
- Fannie Mae, Freddie Mac targets
- one stop shopping for federal technical assistance, SBA, federally assisted finance, CDB bank, services
- other?

• labor and employment tax incentives for the ten pilot EP's--

Wage Credits for employers in targeted area employing residents of zone [issues: only for additional FTE equivalent or all? refundable? amount? declining? How handle displacement, substitution issues for employers who just want to keep costs down by turning over?]

Targeted Job Tax Credits for employers hiring residents [issues: employee household income limit? more effective than TJTC because targeted? Symbolic value because connects EP's to local labor market? If we increased the TJC, even for employers in target area and actually required training, work better or provide better message that straight Wage Tax Credit?]

[Issue are these to blunt an incentive? Is

*Net Job Credit
-ask Shapiro*

*What matters:
1) Wavers
2) Job credits
3) Access to capital
4) Crime*

a special EITC for residents any kind of incentive for employers?

- resident empowerment incentives in all EP's--

(a) New Frontier Homesteading (e.g., low-cost financing to resident Community Investment Corporations for acquisition and development of land, TV cable, fiber optic, information highway and other technology infrastructure, and intellectual property/technology transfer in the area, with gain recognized to resident on sale upon leaving the community and shares earned for providing service, learning, working, etc.?);

(b) Moving to Opportunities, HOME, Homeownership, Mortgage Revenue Bonds, FHA/VA, Fannie/Freddie targets, and other access to housing programs and credit; and

(c) expanded commercial, CD Bank, SBA business lending, Rural small business lending, access to credit

- additional resident empowerment incentive in 10 pilot EP's by encouraging employee ownership and the necessary high involvement management for competitive firms of the future (e.g., interest on loans to finance employee ownership treated like Municipal Bonds for first five years, with sliding scale thereafter until reach then current taxability; gains to shareholders deferred to sale; full disclosure and valuation prior to acquisition; full participation on Board of Directors and full voting shares; skill-based compensation, gain-sharing, profit-sharing);

- capital and investment incentives for defined EP Business and Qualified EP Property (described on attachment A) in 10 pilot EP's--

Property expensing (section 179)

Accelerated depreciation

Low-income housing credit (130% and more flexible on mixed-income, mixed-use)

Other (e.g., ITC for equipment, facilities, buildings tied to numbers of employees served in targeted area?)

- additional capital and investment incentive for all EP's--

unlimited tax-exempt facility bonds

other?

B. Planning, Evaluation and Sunset: The Enterprise Partnership Proposal strives to induce many bold, new, local experiments at the lowest possible budget cost. From the outset, the private sector can provide focus and support: we believe that major foundations and corporations throughout the country will volunteer resources (money, personnel, and technical assistance) for the extensive work necessary to develop comprehensive local action plans in response to the challenge grants. Applicants will have 180 days from the issuance of the Challenge Grant by the designation Secretaries to respond.

The aim of the Enterprise Partnerships is not to demonstrate that geographically targeted inducements will forever be essential to enabling distressed areas to enter the economic mainstream of an otherwise thriving local, regional or national economy. Instead, our ultimate objective is to demonstrate how States, localities, the private sector, local communities and residents will be able to lever off of the new federal investments made in all persons to achieve full participation of urban and rural America in a dynamic national economy. Periodic review by the Secretaries of the results of approved local action plans and mid-course corrections is therefore essential.

Independent review and evaluation of the variety of local experiments and the effectiveness of the reinvented federal role is also critical if the many lessons from diverse Enterprise Partnerships are to be learned and shared. Provision for Challenge Grant funds should therefore be made for independent evaluation and detailed publication of results, findings, and recommendations, first, in 1998 and, again, in 2003 following the decennial census.

Finally, we recommend a sunset for the Enterprise Partnership legislation at the end of ten years.

C. Timing of Legislation. As a matter of policy, the EP Working Group would prefer to breach the Budget Enforcement Act (BEA) wall by shifting the mix of federal inducements to a larger amount of Community Investment and a smaller amount of tax expenditures. However, if this process to rationalize the budget process so that tax expenditures are not specially protected will require delay beyond this legislative session, we recommend that proceeding immediately with the mix of inducements described above. Although this mix may not be ideal, we believe that it is more than sufficient to induce the states and localities to form broad enterprise partnerships and to propose bold new initiatives.

III. CONCLUSION

Enterprise Partnerships empower opportunity, demand

NO

responsibility, and build community. With Enterprise Partnerships, every place in America--no matter how distressed-- will have good reason to hope rather than despair. With Enterprise Partnerships, we can invent the ways to join together in new and more prosperous futures for all Americans.

cc Gene Sperling
Bruce Reed

THE WHITE HOUSE

WASHINGTON

March 3, 1993

MEMORANDUM FOR WORKING GROUP ON ENTERPRISE ZONES

**FROM PAUL DIMOND
SHERYLL CASHIN
PAUL WEINSTEIN**

Vision

Bill Clinton does not believe in programs that simply pour more money into bureaucracies. He is willing to commit more money to social programs, but only if they empower people, grass roots organizations, and communities to help themselves. He stated throughout the campaign that the solution to our many urban and rural social problems is not "more of the same," but hard work leavened with innovation, grass roots empowerment, and hope.

To ensure the efficient use of scarce federal funds for experiment that dares to attempt such a new direction, a Clinton/Gore enterprise zone program should include some type of compact between the community, the private sector, and the federal government, to take responsibility for the program's success. Communities and local governments, though financially distressed, must provide some tangible commitment (i.e. non-monetary matching grant such as land or technical assistance, 2-year renewal requirements, detailed strategy). Companies that take advantage of the zones, must take responsibility for hiring inner city residents. And the Federal government must not only be responsible for providing money, but also for a program that is efficient, allows for flexibility, is short on red tape, and empowers.

Our focus, therefore, should not be on how much money we can spend on enterprise zones (whether in tax incentives or community investment), but on how little is essential to induce local partners to respond creatively and comprehensively. There are a number of existing and proposed community development and human resource programs. We need to structure our enterprise zone proposal so that we can test reinventing these programs with our local partners.

Finally, we need to explore new ways of enticing companies who recognize the importance of our inner cities and rural areas as engines of our economy to participate in this program.

Attached is a proposed working agenda for your consideration.

March 3, 1993

AGENDA

WORKING GROUP--ENTERPRISE

MARCH 5 MEETING
TREASURY ROOM 3000; 10:00 AM

- I. Designation
 - number--e.g., 10,20 50
 - types--e.g., urban, rural,
 - agency choosing--e.g., lead agency, interagency
 - duration
- II. Eligibility criteria
 - who can apply
 - size-urban, rural, discretion or flexibility
 - shape, non-contiguous, CDB/hospital/university
 - population
 - measure of distress
- III. Inducements
 - types-tax incentives, community investments, targeting of programs, deregulation, coordination, CD lending
 - mix of inducements
 - flexibility, discretion on mix/amount of inducements
 - how induce the most creative proposals with the least additional federal outlays
- IV. Challenge Grant Process
 - timing
 - criteria for review and selection
 - agency discretion on mix/amount of inducements
 - applicant match, contribution, coordination
 - anything to offer (e.g., deregulation/coordination, CD lending, Community Investment funds, portion of Block grants from HUD, HHS, etc.) to good proposals not selected to induce to go forward
- V. Evaluation/Administration
 - measures
 - who conducts evaluation
 - interim review process
 - mid-course correction
 - lead agency, interagency coordination
- IV. Budget
 - tax incentives
 - additional investments

- targeting of base and new programs
- management/oversight/interagency coordination
- evaluation
- caps/phase-out/sunset

V. Political Process and Calendar

- what in legislation
- what in Agency RFP
- what constraints from OMB Budget process
- discretion in Secretary/President
- timing of supplemental for Community Investment
- timing of bill
- timing/nature of consultation with the Hill